B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 23

Monday, November 5, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Unification Strains Germany's Public Sector

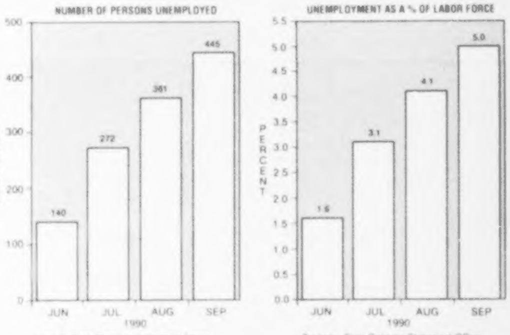
George Bush's lips aren't the only ones that are being closely watched these days. Less than six months ago, the Bonn government had estimated that the cost of financing German reunification would come to around 50 billion marks (about $33 billion) per year (Financial Digest—June 4, 1990). At the same time, Chancellor Helmut Kohl promised that "no one will have to pay for reunification" because a surge in tax revenues due to the robust economic growth that will develop from a united Germany will make it unnecessary to raise taxes.

However, with the cost of German unification soaring well above the original estimates—private economists now think that it may take from $600 billion to $1 trillion over the next ten years to rebuild what was once East Germany—Finance Minister Theo Weigel has already submitted a third extra federal budget for this year. Worse-than-expected economic and environmental conditions in the five eastern states will not only mean less tax revenue from the East, but will also require additional government spending by the West.

Because of the extra strain that financing unification will place on the public sector, Bonn now projects an all-German federal deficit of almost 67 billion marks this year, more than three times the 20 billion mark shortfall that West Germany posted in 1989. However, the Bundesbank thinks that even this estimate may be too low. The German central bank expects that the all-German budget deficit will reach 100 billion marks this year (equivalent to more than four percent of West Germany's economy) and will climb even higher to 130 billion marks in 1991. In fact, many private economists believe that next year's shortfall could exceed 140 billion marks.

What is more, Bonn now concedes that the corporate tax cuts that were supposed to begin in 1991 will have to be delayed for several years. And while Chancellor Kohl, who must face an all-German general election on December 2, is trying to avoid mentioning the taboo subject of taxes for as long as possible, Mr. Weigel now says that taxes will go up "only as a last resort". In fact, four out of five Germans believe that they will be hit with higher taxes after the December elections.

EAST GERMAN UNEMPLOYMENT
SINCE GERMAN ECONOMIC UNIFICATION:



Source: East German Statistical Office

Source: East German Statistical Office

Eastern Germany's Economy Stumbles

One reason for the sharper-than-expected deterioration in the economy of what was once East Germany since economic and monetary unification was implemented on July 1 is the rejection by the East Germans of their own shoddy products. Instead, they are now buying their new cars, radios, televisions, and video recorders from West Germany. In addition, rather than set up shop in the east, the West Germans are finding it easier just to sell their products there. As a result, West German retail sales soared by almost 11 percent in volume terms in August from a year ago, following a 14 percent increase in July. With most of East German demand being satisfied by West German products, industrial production in East Germany plunged by over 40 percent in August from the same month a year ago.

The faltering East German economy, in turn, has forced a larger-than-expected number of people to join the unemployment lines. The number of unemployed workers jumped to almost 445,000 in September from barely 100,000 in June, bringing the East German unemployment rate from 1.6 percent in the month before German monetary and economic unification was implemented to five percent just three months later (see chart).

Copyright 1990 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

And this is even before any of the more than 2,000 East German firms that are not expected to survive free-market competition have been scrapped. So far, The Treuhand, the East German agency responsible for privatizing the state-owned companies, has avoided the unpleasant task of deciding which firms are not viable. Once these companies go under, the number of unemployed workers will soar even higher, possibly to as much as two million—or one-fourth of East Germany's workforce—by early next year. As a result, the East German economy is expected to contract by around ten percent in inflation-adjusted terms this year and by a similar amount in 1991.

Higher-than-expected unemployment is not only boosting government outlays for social benefits, but it is also reducing employee contributions to health, social security and pension funds, requiring the public sector to cover huge shortfalls in these areas. As a result, total welfare payments are expected to reach almost 20 billion marks this year and 30 billion marks in 1991.

The Costs Keep Soaring

Welfare benefits aren't the only costs that are soaring by the day. Bonn has also promised to

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/90)	207,861	+ 1,009	- 11,122
New York City (10/24/90)	35,428	- 794	- 6,950
Commercial Paper (10/24/90)	557,646	- 5,807	+ 46,182

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/90)	317,908	+ 640	- 60
New York City (10/24/90)	57,305	+ 469	- 2,759

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/90)	1,019,039	+ 2,294	+ 31,150
New York City (10/24/90)	177,583	- 950	- 6,063

Financial Markets

	Friday 11/2/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.28%	- .07	- .80
180-Day Bills†	7.38	- .06	- .68
Longest Bills†	7.34	- .07	- .64
Recent Issues:			
7¼s 10/31/92	7.66	NA	
8½s 9/15/94	8.01	- .08	
8¾s 8/15/00	8.57	- .05	
8¾s 8/15/20	8.70	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (11/1/90)	7.29%	- .14	+ .05
Blue List Total ($ Million)	$ 890	- $ 35	- $ 762
30-Day Visible Supply ($ Million)	$1,065	- $866	- $ 926
Total	$1,955	- $901	- $1,688
Corporates:			
Moody's Aa Composite (11/1/90)	9.69%	- .05	+ .55
30-Day Visible Supply ($ Million)	$ 650	- $442	- $1,870
Stocks:			
Dow-Jones Averages:			
Industrials	2,490.84	+ 54.70	- 138.67
Transportation	842.46	+ 5.37	- 369.31
Utilities	215.92	+ 7.23	- 3.77
65 Stocks	879.43	+ 17.78	- 127.05
N.Y.S.E. Composite Index	170.07	+ 3.36	- 17.21
N.Y.S.E. Avg. Daily Vol. for Week (000's)	154,466	+ 10,488	+ 5,536

*34% Taxable equivalent 11.05%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/2/90	Week Ago
Overnight	8.00%	7.88%
1 month	7.88	7.88
3 month	7.94	8.00
6 month	7.94	7.94
1 year	8.00	7.94

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/2/90)	Currency Per U.S. $	Week Ago
Belgium	30.91	31.14
Canada	1.1649	1.1655
France	5.0400	5.0670
Germany	1.5020	1.5140
Italy	1128.20	1133.00
Japan	128.75	127.70
Mexico	2922.60	2917.80
Netherlands	1.6938	1.7055
South Korea	703.99	705.77
Switzerland	1.2720	1.2790
Taiwan	26.77	26.79
U.K.*	1.9520	1.9597

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/2/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.7%	-0.1%

honor East Germany's trade contracts with Eastern Europe. Originally estimated at three billion marks, the cost of these guarantees is now expected to be as high as six billion marks. At the same time, with East Germany's roads, railroads, telephone system and pollution problems even worse than anticipated, the money needed for infrastructure and cleaning up the environment is growing rapidly.

Bills from abroad will be coming in, too. In order to win its endorsement for German unification, Bonn promised the Soviet Union 15 billion marks to cover the cost of Soviet troop withdrawal from East Germany. What is more, in order to demonstrate that a United Germany will fulfill its international obligations, the government has pledged over three billion marks for the American-led military operation in the Gulf and for economic aid to Egypt, Jordan and Turkey.

As the costs of unification mount, Chancellor Kohl's no-new-taxes pledge is looking increasingly vulnerable. So, although his lips are firmly sealed now, all Germans will be waiting to read them—or those of his Socialist rival Oskar Lafontaine—after December 2. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/31/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	241.223	+ .238	+19.736
Loans to Depository Inst.	.430	+ .064	+ .115
Float	.685	- .248	- .013
Total Reserve Bank Credit	284.388	+ .524	+23.877
Treasury Deposits with Federal Reserve Banks	6.274	+ 1.343	- .162
Currency in Circulation	274.533	- .296	+25.742
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	240.993	+ 2.201	+ 7.609
Member Bank Reserves:	**10/31/90**		
Total Reserves Held	58.194	- 2.159	- .441
Excess (Deficiency)	.635	- .387	- .493
Net Free Reserves	.263	- .371	- .543

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (10/22/90)	818.8	+ 5.5	+ 4.4
M2 (10/22/90)	3,318.7	+ 4.4	+ 4.6
M3 (10/22/90)	4,091.0	+ 3.3	+ 1.9
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/2/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.05%	7.02%	6.86%
* Federal Agencies	7.75	7.65	7.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.48	8.78	8.93
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	8.00	8.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.73%	Dec.	7.78%
15- 29 days	7.73	Jan.	7.92
30- 59 days	7.68	Feb.	7.73
60- 89 days	7.80	Mar.	7.69
90-179 days	7.68	Apr.	7.65
180-239 days	7.50	May	7.59
240-270 days	7.50		

‡ Industrial Paper–Prime			
30- 89 days	7.78%	†Federal Funds	
90-120 days	7.75	Effective Rate	7.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)*

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90n	$ 5,514	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90n	$ 4,174	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90n	1.8	0.4	1.7
Change in Consumer Prices*	Sep '90	9.6 %	9.6%	2.4%
Change in MI[illegible] Cost of Living Index*	Sep '90	4.8 %	4.8%	6.0%
Change in Producer Prices*	Sep '90	19.2 %	15.6%	8.4%
Civilian Employment (Thousands of Persons) †	Oct '90n	117,711	117,898	117,585
Unemployment as % of Civilian Labor Force †	Oct '90n	5.7%	5.7%	5.3%
Personal Income*	Sep '90n	$ 4,697	$ 4,673r	$ 4,412
Leading Indicators Composite Index (1967=100) †	Sep '90n	143.3	144.4r	145.0
Industrial Production Index (1977=100) †	Sep '90	110.7	110.4	108.2
Net Change in Consumer Installment Credit †	Aug '90	$ 2.09	$ 4.73	$ 3.52
U.S. Merchandise Trade Balance †	Aug '90	- $ 9.34	- $ 9.12	- $ 10.33
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Sep '90	1,135	1,142	1,263
New Construction Expenditures*	Sep '90n	$ 428.7	$ 441.1r	$ 433.4
Total Business Inventories †	Aug '90	$ 806.5	$ 802.2	$ 791.4
Total Business Sales †	Aug '90	$ 551.9	$ 540.4	$ 531.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER
Global Partners
Focus: Germany

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 24

Monday, November 19, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers
Hanover
Economics
Department
17/270

Recession Is At Hand

While the Federal Reserve has often warned of the potentially negative consequences of a sharp turn toward monetary ease, the odds favoring just such a move are getting shorter by the day. For notwithstanding the disarray plaguing Federal finances and the parlous state of the dollar in the foreign exchange markets, the ongoing unraveling of the economy and the likelihood of diminished price pressures in the months ahead has tipped the scales in favor of markedly lower interest rates.

Last week's meeting of the central bank's policy-setting Federal Open Market Committee must have been a decidedly glum affair, acknowledging not only the chronic lethargy affecting ever-larger chunks of the economy but also the fact that the policy of gradually lowering interest rates in painfully small doses has done little to impede—let alone reverse—the slowdown. Under these circumstances, with the threat of a full-fledged recession looming ever closer while the prospect of quickening inflation ebbs, a more aggressive treatment of the economy's underlying fatigue is called for.

Within the space of just a few short weeks, many of the formerly mixed economic signals have taken on an unmistakably bearish tint, and any lingering good news seems to have vanished with autumn's leaves. In October, for example, industrial production took a steep dive, tumbling by 0.8 percent month-over-month, the first decline since last spring and the largest monthly drop since January. Although a hefty downshift in automobile assemblies paced the plunge, weakness was hardly confined to vehicles. Production declines were broad-based; output of consumer goods, business equipment and construction materials all shared in the drop. Not surprisingly, as output faltered, so did industry operating rates. Overall, capacity utilization dipped to 82.6 percent in October, down 0.9 percent during the month, to its lowest level in three years.

To be sure, one month's decline in industrial output, even of October's magnitude, does not necessarily indicate that a recession is underway. After all, industrial production has eased on numerous monthly occasions throughout this business expansion. But, what appears to be different this time around is that the faltering of factory output is running in tandem with, rather than counter to, the trend in virtually all other economic statistics and surveys.

Private sector payroll employment has dropped for two months in a row, initial claims for state unemployment insurance have spiked to a 7½-year high, help-wanted advertising has slid to a 6½-year low, retail sales are anemic, consumer confidence has plunged and construction activity plumbs new depths month in and month out. Indeed, one of the classic footprints of an economic downdraft was last month's collapse of average hours worked, a good proxy for the direction of gross national product. These hours fell by better than one percent in October, the largest monthly drop since early 1982.

Fewer Deterrents To Easier Money

At this juncture, the economy's resuscitation seemingly requires a large dollop of interest rate relief. Fortunately, two of the principal impediments to such a move, inflation concerns and Federal budget disarray, seem to be falling by the wayside. On the inflation front, although the Fed remains wary of higher oil prices spilling into wages and non-energy prices, so far this has not happened, and the latest reading of the producer price index provides the evidence. While producer prices for finished goods leaped 1.1 percent higher last month, almost all of the gain reflected higher energy costs. Excluding these, the index was up by a slight 0.2 percent, and was actually unchanged if the other volatile component, food, is netted out as well.

So, too, the price indexes for intermediate goods and crude materials have been distorted by escalating oil costs. The index for intermediate goods, for example, is up by only 1½ percent over the past year after the volatile food and energy components are peeled away, while the crude materials index has barely budged. Even the closely-watched employment cost index, perhaps the best inflation gauge, is now signaling inflation moderation. With the surge in benefit costs slowing, total compensation

270 Park Avenue, New York, NY 10017

costs in the third quarter rose at their slowest clip since mid-1988.

Nor does the Federal government's financial plight present quite the obstacle to ease that it did as recently as a month ago, notwithstanding the glaring inadequacies of the recently approved budget accord. With Federal spending spiraling toward $1.3 trillion in the current fiscal year, and the deficit slated to widen to a record $253 billion, the five-year budget package neither cut spending nor reduced the deficit—neither in the first year, nor in the subsequent years as well. Only paltry reductions in previously scheduled spending increases will occur this year, and billions of dollars have been lopped off future deficits with a set of highly upbeat economic assumptions. What is more, the so-called spending caps—designed to put some teeth into the enforcement provisions of the agreement—contain a huge loophole since they can be adjusted for changing economic conditions and "technical corrections". Yet, Fed Chairman Greenspan indicated repeatedly that a budget accord would unlock the door to lower interest rates. He kept his part of the bargain, apparently finding enough fiscal restraint in the form of higher taxes to justify nudging short-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/90)	208,553	+ 10	- 9,479
New York City (11/7/90)	35,413	- 480	- 6,520
Commercial Paper (11/7/90)	558,707	+ 56	+ 45,536

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (10/31/90)	319,508	+ 1,464	- 1,032
New York City (11/7/90)	57,812	- 397	- 2,189

	Total Loans and Leases Gross Adjusted		
	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (10/31/90)	1,020,852	+ 3,651	+ 21,079
New York City (11/7/90)	178,580	- 780	- 3,382

Financial Markets

	Friday 11/16/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.30%	+ .03	- .63
180-Day Bills†	7.36	- .01	- .50
Longest Bills†	7.26	- .04	- .42
Recent Issues:			
7¾s 10/31/92	7.55	- .03	
8½s 9/15/94	7.82	- .12	
8½s 11/15/00	8.30	- .17	
8¾s 8/15/20	8.45	- .19	
Municipals:			
Bond Buyer—20 Bond Index* (11/15/90)	7.15%	- .09	+ .03
Blue List Total ($ Million)	$1,099	+ $124	- $ 139
30-Day Visible Supply ($ Million)	$1,039	- $639	- $ 74
Total	$2,138	- $515	- $ 213
Corporates:			
Moody's Aa Composite (11/15/90)	9.61%	- .06	+ .50
30-Day Visible Supply ($ Million)	$ 850	+ $100	- $4,000
Stocks:			
Dow-Jones Averages:			
Industrials	2,550.25	+ 61.64	- 102.41
Transportation	864.28	+ 30.89	- 326.87
Utilities	208.25	- 2.07	- 12.83
65 Stocks	890.74	+ 18.47	- 116.57
N.Y.S.E. Composite Index	173.30	+ 2.13	- 15.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	163,819	+ 16,119	+ 15,427

*34% Taxable equivalent 10.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 11/16/90**	**Week Ago**
Overnight	7.94%	7.75%
1 month	7.81	7.88
3 month	7.94	8.00
6 month	7.88	7.94
1 year	7.88	8.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/16/90)	**Currency Per U.S. $**	**Week Ago**
Belgium	30.48	30.64
Canada	1.1630	1.1695
France	4.9860	4.9980
Germany	1.4765	1.4885
Italy	1113.50	1121.00
Japan	129.60	129.20
Mexico	2932.20	2929.00
Netherlands	1.6655	1.6785
South Korea	703.79	705.38
Switzerland	1.2495	1.2483
Taiwan	26.74	26.77
U.K.*	1.9595	1.9687

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/16/90) (Adjusted for Inflation)	**Change Since Week Ago**	**Change Since 2/27/85**
	+0.2%	+1.0%

term interest rates lower.

A Vulnerable Dollar

The most frequently cited deterrent to easier money is the tenuous state of the dollar in the foreign exchange markets. However, its importance should not be exaggerated. While the dollar has dropped by nearly 13 percent versus the Deutschemark and by almost 14½ percent against Japanese yen since early June, the decline has so far been "orderly", the costs few and the benefits obvious in terms of enhanced U.S. international competitiveness and healthy exports. And, some of the benefits even extend to the other industrial countries.

While a soft dollar moderates the recessionary impulses rippling through this economy, the strengthening of foreign currencies blunts the inflationary impact overseas of escalating dollar-denominated oil prices. Throughout the industrial world, the weakening dollar is helping to keep inflation a bit slower than it might otherwise be. Rather than an obstacle to ease, dollar depreciation is a good policy supplement to it, a combination which might provide the wherewithal to moderate today's business downturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/14/90	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	245.866	- .798	+24.451
Loans to Depository Inst.	.288	+ .011	- .053
Float	.531	- .152	- .666
Total Reserve Bank Credit	287.467	- .736	+26.248
Treasury Deposits with Federal Reserve Banks	5.471	- 1.048	+ .714
Currency in Circulation	277.682	+ 1.983	+26.343
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	241.442	+ 1.852	+ 4.928
Member Bank Reserves:	11/14/90		
Total Reserves Held	60.154	+ 1.989	+ .341
Excess (Deficiency)	.915	+ .256	+ .034
Net Free Reserves	.658	+ .370	+ .029
		‡ % Change Since 3 Months Ago*	Year Ago
Monetary Aggregates †			
M1 (11/5/90)	822.6	+ 5.2	+ 4.0
M2 (11/5/90)	3,315.7	+ 4.0	+ 4.1
M3 (11/5/90)	4,084.2	+ 2.0	+ 1.7
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/16/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.29%	7.38%	7.28%
* Federal Agencies	7.75	7.65	7.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.95	8.33	9.09
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.00	7.90	7.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.70%	Dec.	7.83%
15- 29 days	7.70	Jan.	7.90
30- 59 days	7.58	Feb.	7.75
60- 89 days	7.75	Mar.	7.65
90-179 days	7.63	Apr.	7.58
180-239 days	7.45	May	7.50
240-270 days	7.45		

‡ Industrial Paper–Prime			
30- 89 days	7.83%	†Federal Funds	
90-120 days	7.75	Effective Rate	7.56%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

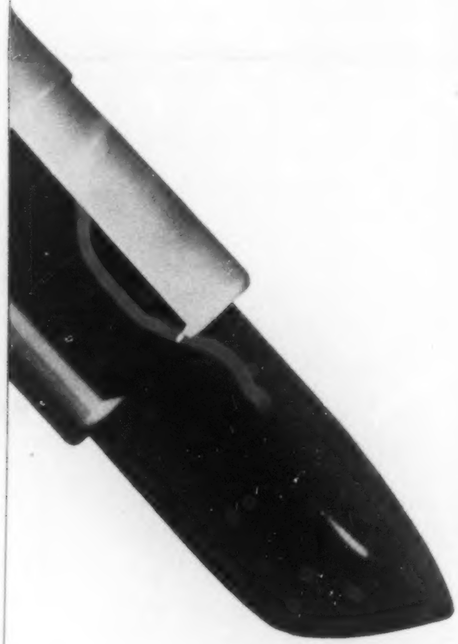
	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,514	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,174	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.8	0.4	1.7
Change in Consumer Prices*	Oct '90n	7.2 %	9.6%	6.0%
Change in MH Cost of Living Index*	Oct '90n	8.4 %	4.8%	6.0%
Change in Producer Prices*	Oct '90n	13.2 %	19.2%	6.0%
Civilian Employment (Thousands of Persons) †	Oct '90	117,711	117,898	117,585
Unemployment as % of Civilian Labor Force †	Oct '90	5.7%	5.7%	5.3%
Personal Income*	Sep '90	$ 4,697	$ 4,673	$ 4,412
Leading Indicators Composite Index (1967=100) †	Sep '90	143.3	144.4	145.0
Industrial Production Index (1977=100) †	Oct '90n	109.6	110.5r	107.7
Net Change in Consumer Installment Credit †	Sep '90n	$ 3.00	$ 3.06r	$ 2.18
U.S. Merchandise Trade Balance †	Sep '90n	- $ 9.41	- $ 9.73r	- $ 8.77
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Sep '90	1,135	1,142	1,263
New Construction Expenditures*	Sep '90	$ 428.7	$ 441.1	$ 433.4
Total Business Inventories †	Sep '90n	$ 811.5	$ 807.5r	$ 789.4
Total Business Sales †	Sep '90n	$ 548.7	$ 551.9r	$ 527.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Distinctive

We Keep The Cash Flow Of A Big Cosmetics Company Looking Good.



Looking healthy. Looking sharp. Our ACH Collection Services put a flawless finish on a cash management system.

Your payments are collected automatically and credited immediately. On time. Forecasting your cash position has never been easier. Every time. You know precisely what you have to invest. Ahead of time — so you can plan accordingly. You're in control — and looking smart.

And should a wrinkle appear, you're not just another face. A dedicated customer service representative is assigned to your account. Someone who knows you. Someone who knows your business. Someone who knows — when questions need answers and problems need solutions.

Slick. Smooth. Smart. ACH Collection Services from GEOSERVE. Services that shine. Call Michael Curran, Vice President, at (212) 270-1010 to give your collection system a lift.

GEOSERVE™
Beautiful Solutions

©1990 Manufacturers Hanover Trust Company.
All Rights Reserved. Member FDIC.

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial
Digest

B 5350-2A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 25

Monday, December 3, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Credit Crunch?

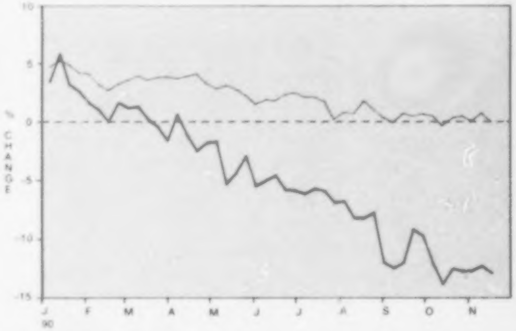
One of the principal concerns overhanging the financial markets is an uneasy feeling that today's commercial bank lending slowdown could evolve into a full-fledged, economy-crippling credit crunch. Characterized by the unavailability of credit at virtually any reasonable price, the occurrence of just such a situation is believed to be entirely possible, if not already in progress. Indeed, spurred by credit quality wariness, stricter capital standards, and regulatory admonitions to tighten lending practices, commercial banks have become increasingly reluctant lenders, even going so far as to generally prefer adding to their holdings of Federal government securities, rather than approving new loans.

But, whether or not this behavior is unhealthy, as some suggest, or national in scope, as others fear, is arguable. For with the economy declining—as even Federal Reserve Chairman Alan Greenspan now admits—and a recession in the wings (Financial Digest—November 19, 1990), it would be highly unusual if both lenders and borrowers did not turn more cautious and, for the moment at least, there is a fair degree of selectivity in which areas, and businesses have been hardest hit by credit limitations.

Unbridled credit restraint undoubtedly sows the seeds of a deep and prolonged business downturn. However, evidence of such a development, at this juncture, is limited. Take, for example, the pronounced slowdown in commercial and industrial (C & I) loan activity at the nation's large banking institutions, the type of short-term business borrowing which is not only sensitive to shifting economic conditions, but also lender receptivity to new loan requests. This C & I slowdown, and the tapering of real estate-related lending, are perhaps the most often cited symptoms of today's perceived credit crunch.

Commercial and industrial loans outstanding have actually contracted a bit over the past year, falling by a shade more than $60 million. So, too, at a time when real estate woes are multiplying, and builders are financially squeezed, real estate lending has slowed markedly, barely budging over the past three months. This combination is believed to be magnifying all of the nation's ills, throttling everything from business spending on jobs and capital equipment to residential construction to household spending with the proceeds of home equity loans.

C & I LOANS OUTSTANDING:
BOSTON DISTRICT (THICK) VS. NATIONWIDE (THIN)
(52-WEEK PERCENT CHANGES)



Source: Federal Reserve Board

Northeast Blues

Whether this qualifies as a full-fledged crunch is problematic. The overall credit contraction is spread quite unevenly throughout the country, and the regionally-spotted pattern of today's business downturn is mirrored in the lending totals of the various regional Federal Reserve Districts. The Boston Fed District, for example, finds itself at the epicenter of the nation's business downdraft. Not surprisingly, the banking numbers reflect this. Over the past year, commercial and industrial loan footings at the region's large banks have tumbled by 13 percent—underperforming the nation by a wide margin—while real estate outstandings have slumped by 20 percent (see chart). Nor does the softness stop at New England's borders, spilling over into the adjacent Middle Atlantic region. Hard-hit by the same combination of factors which have flattened New England—Wall Street tremors, defense industry cutbacks and high-technology woes—the New York and Philadelphia Districts, too, have experienced a runoff of C & I footings.

In large chunks of the rest of the country, the situation is not nearly as glum, and bank lending and business borrowing have held up reasonably well. Few signs of a crunch exist in the Southeast, where banks in both the Richmond and Atlanta regions have recorded generally

270 Park Avenue, New York, NY 10017

buoyant short-term business loan growth over the past year. In the Midwest, their counterparts in Minneapolis and Chicago have posted modest gains, and even the Dallas region, after enduring a prolonged lending free fall, is experiencing a modest snapback in banking activity. In fact, the Northeast blues are so pervasive that they are overwhelming the nationwide C & I loan totals. Stripping away just the Boston plunge changes a $63 million nationwide drop in such loans outstanding over the past year into a nearly $3 billion increase.

Balance Sheet Repairs In Progress

In order to pre-empt credit crunch perceptions from becoming reality, the Fed has stepped up its reserve provisioning to the banking system, an abrupt departure from its reserve draining actions of a year earlier. While this has yet to stimulate a dramatic upturn in new lending, it has facilitated a surge in bank purchases of Federal securities. These have risen by better than 20 percent over the past year, prompting some analysts to argue that this, too, is symptomatic of credit crunch behavior. However, exactly the same thing has happened several times in the past without triggering undue credit restraint, most recently in the mid 1980s when economic skies darkened, borrowers became scarce and securities purchases soared.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	206,993	- 1,115	- 11,345
New York City (11/21/90)	34,942	- 302	- 6,862
Commercial Paper (11/21/90)	554,051	- 370	+ 37,985

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	318,494	- 835	- 63
New York City (11/21/90)	57,884	- 168	- 2,244

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	1,020,538	+ 2,128	+ 26,825
New York City (11/21/90)	179,350	+ 9	- 3,408

Financial Markets

	Fri[illegible] 11/30/9[illegible]	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.22%	- .03	- .54
180-Day Bills†	7.34	+ .03	- .39
Longest Bills†	7.29	+ .04	- .35
Recent Issues:			
7⅛s 11/30/92	7.51	NA	
8½s 9/15/94	7.82	+ .06	
8½s 11/15/00	8.26	-0-	
8¾s 8/15/20	8.41	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (11/29/90)	7.08%	- .05	+ .04
Blue List Total ($ Million)	$1,281	+ $117	+$ 104
30-Day Visible Supply ($ Million)	$2,186	- $130	- $1,014
Total	$3,467	- $ 13	- $ 910
Corporates:			
Moody's Aa Composite (11/29/90)	9.52%	-0-	- .39
30-Day Visible Supply ($ Million)	$ 550	- $100	- $1,515
Stocks:			
Dow-Jones Averages:			
Industrials	2,559.65	+ 32.42	- 188.00
Transportation	853.00	+ 8.88	- 349.35
Utilities	212.09	+ 3.09	- 15.72
65 Stocks	892.93	+ 11.26	- 142.04
N.Y.S.E. Composite Index	176.06	+ 3.67	- 17.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	151,832	+ 25,299	- 8,928

*34% Taxable equivalent 10.73%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/30/90	Week Ago
Overnight	7.56%	7.56%
1 month	8.75	7.81
3 month	8.31	8.00
6 month	8.19	7.88
1 year	8.00	7.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/16/90)	Currency Per U.S. $	Week Ago
Belgium	31.02	30.49
Canada	1.1665	1.1575
France	5.0730	4.9855
Germany	1.5025	1.4768
Italy	1127.50	1110.20
Japan	133.25	127.63
Mexico	2937.80	2933.60
Netherlands	1.6950	1.6660
South Korea	699.65	704.48
Switzerland	1.2825	1.2470
Taiwan	26.74	26.73
U.K.*	1.9405	1.9650

*U.S. $ per U.K. pound

	Change Since	
MH TRADE-WEIGHTED DOLLAR (11/30/90) (Adjusted for Inflation)	**Week Ago**	**2/27/85**
	+1.5%	+2.4%

If credit crunch conditions do exist, they are generally regionally confined, and anecdotal evidence places the brunt on small- and medium-sized firms, as well as those with debt-laden balance sheets. While this diagnosis understandably brings little solace to such firms, which generate nearly three quarters of the nation's new jobs, or borrowers located in the Northeast, it does say something about the prognosis for the economy.

With the relaxed lending standards of the 1980s giving way to the tightened practices of the 1990s, what is currently underway is not so much a traditional, business-crippling credit crunch as it is a "balance sheet crunch"—in today's riskier environment, highly-leveraged firms and individuals find their access to credit restricted, and may continue to do so while their finances are being repaired. Rather than an unhealthy development, this process actually enhances the economy's stability. It also means that credit crunch perceptions will linger, notwithstanding determined Fed efforts to pump up bank reserves, or policymaker entreaties for more lending. The eventual benefits, however, will pay significant dividends, since a strengthened business and financial community will set the stage for a well-balanced economic recovery. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/28/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	248.742	- 4.788	+21.838
Loans to Depository Inst.	.209	+ .031	- .472
Float	.388	- .037	- .592
Total Reserve Bank Credit	288.589	+ .670	+24.083
Treasury Deposits with Federal Reserve Banks	4.894	- .481	- .198
Currency in Circulation	280.075	+ 1.170	+26.434
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	245.965	+ 4.009	+12.941
Member Bank Reserves:	**11/28/90**		
Total Reserves Held	60.061	- .052	+ .422
Excess (Deficiency)	1.055	+ .065	+ .046
Net Free Reserves	.886	+ .153	+ .295
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (11/19/90)	823.6	+ 3.8	+ 4.2
M2 (11/19/90)	3,319.0	+ 2.8	+ 3.9
M3 (11/19/90)	4,083.0	+ 0.2	+ 1.5
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/30/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.02%	6.99%	6.83%
* Federal Agencies	7.45	7.40	7.45
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.48	8.48	8.64
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.35	8.25	8.10

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.65%	Jan.	8.70%
15- 29 days	7.58	Feb.	8.20
30- 59 days	7.11	Mar.	8.10
60- 89 days	7.90	Apr.	8.00
90-179 days	7.68	May	7.85
180-239 days	7.40	Jun.	7.77
240-270 days	7.40		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	8.18%		
90-120 days	8.00	Effective Rate	7.50%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,521 r	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,173 r	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.7 r	0.4	1.7
Change in Consumer Prices*	Oct '90	7.2 %	9.6%	6.0%
Change in MH Cost of Living Index*	Oct '90	3.6 % r	4.8%	6.0%
Change in Producer Prices*	Oct '90	13.2 %	19.2%	6.0%
Civilian Employment (Thousands of Persons) †	Oct '90	117,711	117,898	117,585
Unemployment as % of Civilian Labor Force †	Oct '90	5.7%	5.7%	5.3%
Personal Income*	Oct '90n	$ 4,705	$ 4,699r	$ 4,441
Leading Indicators Composite Index (1967=100) †	Oct '90n	141.6	143.3	144.4
Industrial Production Index (1977=100) †	Oct '90	109.6	110.5	107.7
Net Change in Consumer Installment Credit †	Sep '90	$ 3.00	$ 3.06	$ 2.18
U.S. Merchandise Trade Balance †	Sep '90	- $ 9.41	- $ 9.73	- $ 8.77
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Oct '90n	1,041	1,107r	1,423
New Construction Expenditures*	Sep '90	$ 428.7	$ 441.1	$ 433.4
Total Business Inventories †	Sep '90	$ 811.5	$ 807.5	$ 789.4
Total Business Sales †	Sep '90	$ 548.7	$ 551.5	$ 527.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER
Expertise
The Rewards of Loyalty
It's finding us there when you're testing new waters.

You're growing fast. You're encountering new, tougher, more complex problems. It helps to be with a bank that's been there before.

That's us.

Our experience helps us build long-term relationships, the kind where loyalty between bank and customer has a chance to grow and flourish. With loyalty established, understanding is more complete; decisions come more easily; useful new ideas occur more readily; turnaround time is shorter; growth is accelerated.

When you're in the happy position of growing fast you'll find our advice and experience particularly helpful. Helping businesses grow has always been a strength of ours.

When you sit down with your Account Officer, you'll find a banker who knows your industry, who is also a specialist in planning growth so the growth is smooth. Who can solve a problem in a timely way because he or she has encountered it before. And who enjoys coming up with new ideas that add value to our service.

We'd like to be your bank for the life of your business.℠

The Business Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 26

Monday, December 17, 1990

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

...and a
HAPPY
NEW
YEAR
to all!

Manufacturers
Hanover
Economics
Department
17/270

Copyright 1990 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Srecna Nova Godina
לשנה טובה תכתבו
Selamat Tahun Baru
HAPPY NEW YEAR
賀正
Manigong Bagong Taon
สวัสดีปีใหม่
Buon Anno Nuovo
Próspero Año Nuevo
كل عام وانتم بخير
새해복많이받으십시요
恭喜發財新年快樂
Καλή Χρονιά
Fröhliches Neues Jahr
Bonne Année
Gott Nytt Ar
Próspero Ano Novo

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/90)	206,001	729	- 11,747
New York City (12/5/90)	35,289	+ 472	- 6,452
Commercial Paper (12/5/90)	558,500	+ 6,296	+ 39,270

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/90)	316,958	- 1,664	- 328
New York City (12/5/90)	58,378	+ 1,219	- 1,006

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/90)	1,018,056	- 1,007	+ 26,958
New York City (12/5/90)	179,008	+ 478	- 4,066

Financial Markets

	Friday 12/14/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.05%	- .03	- .81
180-Day Bills†	7.07	-0-	- .69
Longest Bills†	7.08	- .04	- .54
Recent Issues:			
7⅛s 11/30/92	7.32	+ .02	
7⅞s 2/15/96	7.74	+ .07	
8½s 11/15/00	8.04	+ .01	
8¾s 8/15/20	8.20	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (12/13/90)	7.05%	- .01	+ .06
Blue List Total ($ Million)	$1,143	- $ 223	- $436
30-Day Visible Supply ($ Million)	$1,464	- $1,171	- $291
Total	$2,607	- $1,394	- $727
Corporates:			
Moody's Aa Composite (12/13/90)	9.32%	- .13	+ .20
30-Day Visible Supply ($ Million)	$ 300	- $ 340	- $850
Stocks:			
Dow-Jones Averages:			
Industrials	2,593.82	+ 3.72	- 145.73
Transportation	903.12	- 6.55	- 267.58
Utilities	208.57	- 1.50	- 27.41
65 Stocks	910.00	- 2.15	- 121.14
N.Y.S.E. Composite Index	178.71	- 0.36	- 14.76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	157,718	- 40,278	- 28,294

*34% Taxable equivalent 10.68% † Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/14/90	Week Ago
Overnight	7.25%	7.50%
1 month	8.06	8.13
3 month	7.69	7.75
6 month	7.63	7.69
1 year	7.56	7.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/14/90)	Currency Per U.S. $	Week Ago
Belgium	30.61	30.85
Canada	1.1623	1.1622
France	5.0447	5.0220
Germany	1.4835	1.4800
Italy	1119.50	1115.00
Japan	132.70	131.47
Mexico	2942.60	2940.2
Netherlands	1.6730	1.6695
South Korea	702.80	700.83
Switzerland	1.2743	1.2610
Taiwan	26.63	26.72
U.K.*	1.9400	1.9455

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/14/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.7%	-12.7%

Selected Federal Reserve Data
(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/12/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	248.653	- 2.234	+18.606
Loans to Depository Inst.	.123	- .015	- .009
Float	.491	- .885	- .342
Total Reserve Bank Credit	289.058	- 2.814	+21.348
Treasury Deposits with Federal Reserve Banks	4.148	- 1.503	- .327
Currency in Circulation	281.153	+ 1.298	+25.804
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.491	- 2.082	+16.779
	12/12/90		
Member Bank Reserves:			
Total Reserves Held	60.100	+ .084	- .531
Excess (Deficiency)	.497	- .545	- .262
Net Free Reserves	.392	- .482	- .238

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (12/3/90)	819.0	+ 2.4	+ 4.1
M2 (12/3/90)	3,311.8	+ 1.4	+ 3.6
M3 (12/3/90)	4,078.1	- 0.5	+ 1.4
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.6

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average.

New York Money Market

Offering Rates 12/14/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.85%	6.75%	6.65%
* Federal Agencies	7.30	7.20	7.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.95	8.03	8.18
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.66	7.50	7.60

‡ Finance Company Paper–Prime	
5- 14 days	6.85%
15- 29 days	7.25
30- 59 days	7.45
60- 89 days	7.25
90-179 days	7.18
180-239 days	6.95
240-270 days	6.95

‡* Bankers' Acceptances	
Jan.	7.70%
Feb.	7.42
Mar.	7.32
Apr.	7.25
May	7.15
Jun.	7.07

‡ Industrial Paper–Prime	
30- 89 days	7.65%
90-120 days	7.45

†Federal Funds Effective Rate 7.31%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,521	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,173	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.7	0.4	1.7
Change in Consumer Prices*	Oct '90	7.2%	9.6%	6.0%
Change in MH Cost of Living Index*	Oct '90	3.6%	4.8%	6.0%
Change in Producer Prices*	Nov '90n	6.0%	13.2%	1.2%
Civilian Employment (Thousands of Persons) †	Nov '90n	117,261	117,711	117,836
Unemployment as % of Civilian Labor Force †	Nov '90n	5.9%	5.7%	5.3%
Personal Income*	Oct '90	$ 4,705	$ 4,699	$ 4,441
Leading Indicators Composite Index (1967=100) †	Oct '90	141.6	143.3	144.4
Industrial Production Index (1977=100) †	Nov '90n	107.5	109.4r	108.1
Net Change in Consumer Installment Credit †	Oct '90n	$ 1.47	$ 2.84r	$ 4.43
U.S. Merchandise Trade Balance †	Sep '90	- $ 9.41	- $ 9.73	- $ 8.77
Plant and Equipment Expenditures*	4th Q'90	$ 538.6(a)	$ 532.5(a)	$ 519.6
Private Housing Starts (Thousands of Units)*	Oct '90	1,041	1,107	1,423
New Construction Expenditures*	Oct '90n	$ 434.4	$ 428.9r	$ 429.3
Total Business Inventories †	Oct '90n	$ 813.9	$ 810.8r	$ 794.0r
Total Business Sales †	Oct '90n	$ 551.9	$ 547.2r	$ 526.1r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Leadership

There's Strength In Our Numbers — Across The Board.

And power in our team — across the globe. The power that fuels leadership in five major businesses. Leadership that performs.

Providing worldwide account information to over 2000 companies. Any time. Every day. Processing over $200 billion in funds transfers. A transaction every other second. Holding $350 billion in custody. And growing daily. Serving as issuing and paying agent for 30% of the commercial paper market. One note printed every single second. Supporting over $7 billion in outstanding letters of credit and acceptances. Unbeatable performance.

Cash Management, Funds Transfer, Global Securities Services, Corporate and Institutional Trust, and Trade Services. Leaders. GEOSERVE. The player to contact when you need to win. The people to contact when you have to succeed. Make your move with GEOSERVE.

Call James P. Witkins,
Senior Vice President,
at (212) 270 7812.

©1990 Manufacturers Hanover Trust Company.
All Rights Reserved. Member FDIC. Member of the Securities Association.

GEOSERVE™
The Master Player

MANUFACTURERS
HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2 A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVII, Number 27

Monday, December 31, 1990

Analysis of Business Trends Plus Selected Financial Indicators

Economics Influences Politics in United Kingdom

News stories around the world would lead one to believe that Margaret Thatcher's style, attitude toward Europe and implementation of an unpopular local tax last April were the principal issues that led to a rebellion within the Conservative Party and resulted in her resignation as Britain's Prime Minister. But, this tells only part of the story. Perhaps equally important were shortcomings in macroeconomic policies, especially today's high interest rate monetary policy, which has so far done little to curb inflation, yet has managed to trigger a recession.

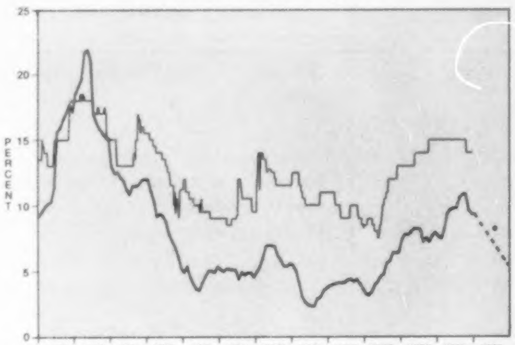
The U.K.'s inflation rate had been rising rapidly for almost three years, reaching a lofty 10.9 percent in August, almost twice the European average. At the same time, the government's anti-inflation policy kept short-term interest rates at a punishing 15 percent for an entire year. Most likely, these developments, not to mention a winding down of the pace of business and mounting joblessness, were the major reasons why the opposition Labor Party had vaulted to such a substantial lead in most public opinion polls last summer—often as large as 20 percentage points—making Mrs. Thatcher's own party question whether she was again "electable".

Manufacturers Hanover
Economics Department
17/270

When Mrs. Thatcher assumed office in 1979, her chief goals were to make the economy more productive through a series of so-called "supply-side" initiatives and to combat inflation. With a firm commitment to free markets and a disdain for socialism in any form, she slashed the economic power of the state and worked tirelessly to enhance the role of private enterprise. Wage, price, credit and exchange rate controls were abolished, efforts to tame the labor unions were intensified, close to $60 billion worth of public assets were sold to private shareholders, income tax rates were lowered and public spending cut from the equivalent of 44 percent of GNP in 1979, to 39½ percent last year.

And, for a while at least, these policy moves worked, producing a prolonged business expansion and subduing the rate of inflation. Lofty interest rates and a sharp appreciation of the pound brought the year-over-year inflation rate from a high of 22 percent in May 1980 to as low as 2½ percent in July 1986. However, it was won at a tremendous cost, as the number of workers without jobs soared above three million by mid-1986, from barely one million in 1979.

12-MONTH PERCENT CHANGE IN U.K. INFLATION (THICK)
VS. U.K. BASE RATE (THIN)



* Dashed line represents U.K. Treasury forecast

Source: International Monetary Fund

Roots Of The Problem

The roots of the U.K.'s current economic woes have little to do with the structural reforms initiated by Mrs. Thatcher's government, but rather the monetary policy flip-flop which occurred in the wake of the October 1987 global stock market crash. Responding aggressively to widespread expectations of recession, interest rates were dramatically lowered, and the base (reference) rate collapsed to eight percent by early 1988, its lowest level in ten years. As a result, although the government was cutting back its own outlays, British consumers went on a spending spree, fueling an upturn in the rate of inflation and sparking a surge in imports.

With the economy threatening to overheat, the government abruptly reversed direction in early 1988. It tightened the monetary screws considerably, eventually pushing the base rate up to 15 percent by October 1989. But, despite the policy reversal, the damage had already been done. This is because lofty pay settlements had become deeply embedded within the fabric of British industry during this period, enabling consumers to maintain a high level of spending.

Notwithstanding Mrs. Thatcher's many supply-side achievements, the resurgence in inflation during the past three years began to undermine

Copyright 1990 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

confidence in her economic management. With the year-over-year inflation rate back in double digits and interest rates at their highest level since 1981 (see chart), many questioned whether she was back to where she had started. And, with the economy in a recession that some think could be as severe as in 1980-81 and unemployment rising rapidly, they wondered if it was all worth it.

The Economy Will Remain An Issue

Just as both the government and private economists had underestimated the strength of the U.K. economy three years ago, they have, until very recently, underestimated its current weakness. The latest GDP, retail sales, industrial output, unemployment and money supply data confirm that the economy is in its worst shape since the 1980-81 recession.

Not surprisingly, dismal economic statistics and slumping government popularity go hand-in-hand. Over the past month there has been a sharp slide in the Conservative Party's lead in the public opinion polls, which quickly reemerged after the resignation of Mrs. Thatcher. This lead fell from eleven percentage points in November, when John Major, the new Prime Minister, assumed office, to less than five percentage points today. Thus, it appears that

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/12/90)	204,807	- 704	- 12,307
New York City (12/12/90)	34,945	- 344	- 6,589
Commercial Paper (12/12/90)	563,879	+ 5,379	+ 43,348

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/12/90)	317,122	- 1,698	+ 12
New York City (12/12/90)	57,397	- 919	- 2,679

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/12/90)	1,022,608	+ 1,892	+ 28,967
New York City (12/12/90)	179,454	+ 470	- 4,950

Financial Markets

	Friday 12/28/90	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.64%	- .14	- 1.27
180-Day Bills†	6.84	- .08	- 1.09
Longest Bills†	6.88	- .06	- .86
Recent Issues:			
7¼s 12/31/92 (When Issued)	7.24	NA	
7⅞s 2/15/96	7.80	+ .05	
8½s 11/15/00	8.13	+ .03	
8¾s 8/15/20	8.30	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (12/27/90)	7.14%	+ .03	+ .17
Blue List Total ($ Million)	$1,549	- $ 58	+$ 24
30-Day Visible Supply ($ Million)	$ 989	+ $738	- $ 188
Total	$2,538	+ $680	- $ 164
Corporates:			
Moody's Aa Composite (12/27/90)	9.40%	+ .01	+ .27
30-Day Visible Supply ($ Million)	-0-	-0-	- $1,910
Stocks: (Thursday, 12/27/90)			
Dow-Jones Averages:			
Industrials	2,625.50	- 3.96	- 106.80
Transportation	913.42	- 2.25	- 261.01
Utilities	210.45	+ .57	- 24.96
65 Stocks	920.41	- .93	- 109.75
N.Y.S.E. Composite Index	179.48	- .84	- 14.10
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,610	- 97,090	- 33,923

*34% Taxable equivalent 10.82%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/28/90	Week Ago
Overnight	9.00%	7.44%
1 month	7.50	8.75
3 month	7.44	8.13
6 month	7.44	7.63
1 year	7.44	7.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/28/90)	Currency Per U.S. $	Week Ago
Belgium	31.06	31.60
Canada	1.1609	1.1591
France	5.1120	5.1995
Germany	1.5030	1.5295
Italy	1132.70	1154.70
Japan	135.60	136.10
Mexico	2949.40	2946.60
Netherlands	1.6950	1.7270
South Korea	703.49	703.39
Switzerland	1.2840	1.3125
Taiwan	26.64	26.64
U.K.*	1.9170	1.8759

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/28/90) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+0.7%	-9.5%

just as the state of the economy cost Mrs. Thatcher her job, the country's economic health will determine whether the Tory Party, itself, wins or loses the next election, which must be held by June 1992.

While Mr. Major has much to do in such previously-neglected areas as education and infrastructure, his most immediate task will be to stabilize the economy. However, now that the pound has entered the exchange rate mechanism of the European Monetary System (EMS), and the currency is obligated to trade within specific ranges, this will be easier said than done. Despite the marked weakening of the economy, sterling's current position at the bottom of the EMS currency grid makes it difficult for the Bank of England to loosen monetary policy and still hold the pound steady, especially when interest rates are rising in the other EMS member countries.

Alternatively, the sharper the recession, the faster the inflation rate will drop. If official expectations of a 5½ percent inflation rate by the end of next year materialize, the stage would then be set for lower interest rates and a resumption of economic growth, and an important determinant of British voting behavior will work in Mr. Major's favor. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/19/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	245.644	- 3.009	+16.261
Loans to Depository Inst.	.155	+ .032	- .033
Float	.676	+ .184	- .633
Total Reserve Bank Credit	286.508	- 2.537	+18.968
Treasury Deposits with Federal Reserve Banks	5.406	+ 1.258	+ 1.004
Currency in Circulation	282.470	+ 1.318	+25.787
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	248.971	- 1.520	+16.702
Member Bank Reserves:	**12/12/90**		
Total Reserves Held	60.183	+ .226	- .448
Excess (Deficiency)	.689	- .295	- .070
Net Free Reserves	.584	- .232	- .046
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (12/10/90)	820.4	+ 1.8	+ 4.0
M2 (12/10/90)	3,318.0	+ 0.6	+ 3.4
M3 (12/10/90)	4,087.2	- 1.1	+ 1.3
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/28/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.48%	6.57%	6.48%
* Federal Agencies	7.10	7.10	7.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.65	7.80	7.95
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.10	8.20	7.55

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Jan.	9.20%
15- 29 days	7.50	Feb.	8.75
30- 59 days	7.30	Mar.	8.20
60- 89 days	7.30	Apr.	8.00
90-179 days	7.10	May	7.95
180-239 days	6.65	Jun.	7.60
240-270 days	6.65		

‡ Industrial Paper–Prime			
30- 89 days	8.72%	†Federal Funds	
90-120 days	8.15	Effective Rate	8.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

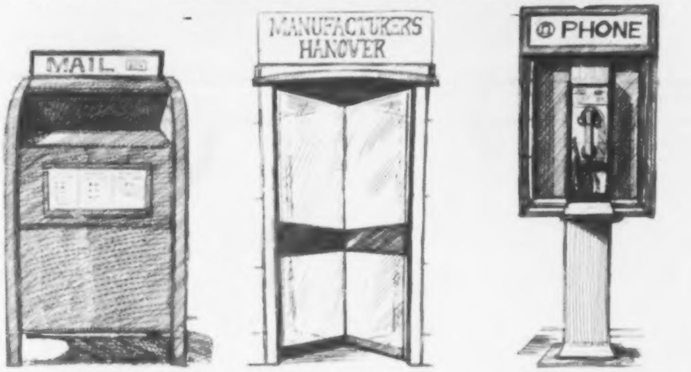
	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,515r	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,170r	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.4r	0.4	1.7
Change in Consumer Prices*	Nov '90n	3.6%	7.2%	3.6%
Change in MH Cost of Living Index*	Nov '90n	4.8%	3.6%	4.8%
Change in Producer Prices*	Nov '90	6.0%	13.2%	1.2%
Civilian Employment (Thousands of Persons) †	Nov '90	117,261	117,711	117,836
Unemployment as % of Civilian Labor Force †	Nov '90	5.9%	5.7%	5.3%
Personal Income*	Nov '90n	$ 4,710	$ 4,697r	$ 4,470
Leading Indicators Composite Index (1967=100) †	Nov '90n	139.7	141.4r	144.6
Industrial Production Index (1977=100) †	Nov '90	107.5	109.4	108.1
Net Change in Consumer Installment Credit †	Oct '90	$ 1.47	$ 2.84	$ 4.43
U.S. Merchandise Trade Balance †	Oct '90n	- $ 11.61	- $ 9.33r	- $ 10.15
Plant and Equipment Expenditures*	1st Q'91n	$ 557.9(a)	$ 532.8(a)r	$ 532.4
Private Housing Starts (Thousands of Units)*	Nov '90n	1,129	1,033r	1,347
New Construction Expenditures*	Oct '90	$ 434.4	$ 428.9	$ 429.3
Total Business Inventories †	Oct '90	$ 813.9	$ 810.8	$ 794.0
Total Business Sales †	Oct '90	$ 551.9	$ 547.2	$ 526.1

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Responsive

Now you can buy mutual funds at these convenient locations.



Open a Manufacturers Hanover Investment Connection Account℠ and watch what happens. You can buy and sell mutual funds *through* Manufacturers Hanover Trust from wherever you are.

Here's how it works. Just open an Investment Connection Account (where your money earns competitive interest rates) and you can sign up for no-load mutual funds available through Dreyfus Service Corporation and Federated Securities Corp.

When you're ready to invest, just give us a call. We'll have the fund's sponsor mail you all the information you need. Then walk in, call in or mail in your order and we'll process it as soon as we get it.* It's that simple.

Switching funds is just as easy. At a moment's notice, you can move all or part of your investment from one fund to another within the same fund family, or back into your Investment Connection Account where it will earn interest again.

And if that interests you, here's something you'll really like. Every quarter, you'll receive a state-of-the-art statement that puts your entire MHT financial picture right in front of you. It's a quarterly statement that includes a computer-generated pie chart to help you track the growth of all your Manufacturers Hanover accounts as well as your Dreyfus and Federated mutual funds.

Sound nice? Then listen to this. For a limited time, we'll send you a copy of Sylvia Porter's audiocassette *Mutual Funds Investment Choice of the 80's*, absolutely free, when you open your account.

If you'd like to know more about our Investment Connection Account, just give us a call at **1-800-MHT-BANK.**

Now isn't that convenient?

*Telephone orders are available for redemptions, exchanges or additional purchases only. Full information about the Investment Connection Account including balance requirements and maintenance fees is available at any branch.

The Consumer Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 1 Monday, January 14, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Recession Isn't Everywhere

With the drumbeat of negative economic developments growing louder every day, even a seasoned observer of the business environment should be excused for acquiring a pervasively pessimistic posture. Rising joblessness, mounting business failures, strains in the financial system and widening Federal and state budget deficits, not to mention oil supply and price uncertainties, have already cut deeply into the household and business psyche, eroding confidence and sidelining an ever-growing number of investment spending decisions.

Nonetheless, an overly-pessimistic view is also a myopic one, for in a continental-sized economy as diverse as this one, even a recession is not all-encompassing. Sizable industry- and regional-specific pockets of economic expansion exist, ranging from buoyant export-oriented industries in the Great Lakes region, to rebounding oil exploration activity in the Southwest, to booming health care services everywhere; these factors should blunt the severity and shorten the duration of the current business downturn.

To be sure, a blizzard of dismal economic statistics continues to descend upon the nation. In recent weeks, it has been reported that factory orders suffered a huge plunge in November, construction activity remained anemic, Holiday retail sales were generally disappointing, business bankruptcies were soaring and, perhaps most worrisome, that private sector payroll employment continued to decline. Although the number of jobs lost in December was somewhat smaller than the more pessimistic pundits anticipated, the weakness in the job market last month was broad-based, affecting such sectors as manufacturing, construction and retailing. And, while the length of the workweek popped a bit higher in December, it was too little too late to reverse the steep slide which occurred earlier in the quarter. The plunge in average hours worked is one of the most unambiguous signals yet that the inflation-adjusted gross national product is contracting, probably at a 2½ percent annualized clip or more, in the fourth quarter.

While the overall economic picture has unmistakably darkened, all too often the broad-brush economic statistics released by Washington mask as much as they reveal. And, the current situation is no exception. Not all industries and regions are in the grip of recession, nor are they likely to be. Take, for example, the well-publicized difficulties of domestic manufacturing. Over the past year, industrial output has contracted, nearly 600,000 factory jobs have been shed, profits have evaporated and profit margins have sunk to recession lows. The difficulties of the automobile, high-technology and defense industries dominate the news, being carefully detailed almost daily.

Industry Strong Points

Hefty output declines in these industries have, however, been offset to a large extent by output gains in a variety of other industries. In general, companies servicing faster-expanding overseas markets have been able to sidestep the current business slowdown, and expectations abound that those involved in energy extraction and exploration will, too. With order books bulging, output of commercial jet aircraft has been booming, as has production of iron and steel, telecommunications equipment, and paper products. Nor does the pronounced dichotomy between strong and weak industries end with manufacturing; it extends into retailing and other service industries as well.

Although many major general merchandise retailers expressed disappointment with Holiday sales volumes, discounters did not. As consumers turned cautious, they pinched their pennies a bit tighter, purchasing "down" this Christmas season—much to the delight of those merchants selling less expensive merchandise. And while such service industries as commercial banking, real estate and insurance continue to shed workers, the health care industry is booming. It added more than 600,000 workers in 1990, accounting for nearly 60 percent of the 1.1 million private sector, service-producing jobs created last year.

The unevenness of the impact of the economy's downturn across industries is mirrored regionally. With sizable concentrations of high-technology and defense-related companies, New England finds itself at the epicenter of the cur-

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

rent recession, with payroll employment tumbling, initial unemployment claims soaring, retail sales easing and housing starts plunging. Similarly, the Middle Atlantic region, especially the financial services industry-dependent New York City metropolitan area, and large swaths of California, principally those dependent upon defense and associated high-technology spending, are experiencing their share of business woes. This is perhaps best illustrated by the drop of residential property values and the unraveling of new home construction in each area. In the Middle Atlantic states, housing starts have tumbled by a third over the past year and, in California, they are off by about the same proportion.

Regional Bright Spots

In contrast, those regions and metropolitan areas whose local economies are tied to exports, energy or agriculture have either remained healthy or have seen their prospects brighten. The export-oriented Great Lakes region is enjoying increases in employment, retail sales and housing starts. Even within hard-pressed regions, exporting communities are enjoying brisk growth. The greater Rochester, New York area, for example, has a jobless rate

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/26/90)	201,085	- 1,084	- 13,588
New York City (1/2/91)	35,180	+ 532	- 6,156
Commercial Paper (1/2/91)	557,024	- 6,769	+ 27,669

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/26/90)	316,853	+ 770	- 486
New York City (1/2/91)	56,977	- 81	+ 39

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/26/90)	1,023,912	- 986	+ 30,552
New York City (1/2/91)	183,455	+ 5,120	+ 4,108

Financial Markets

	Friday 1/11/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.34%	- .36	- 1.40
180-Day Bills†	6.54	- .27	- 1.26
Longest Bills†	6.61	- .19	- 1.14
Recent Issues:			
7¼s 12/31/92	7.11	- .04	
7⅞s 2/15/96	7.78	+ .12	
8½s 11/15/00	8.16	+ .15	
8¾s 8/15/20	8.37	+ .17	
Municipals:			
Bond Buyer—20 Bond Index* (1/10/91)	7.15%	+ .06	+ .12
Blue List Total ($ Million)	$1,355	+ $ 66	+$ 87
30-Day Visible Supply ($ Million)	$1,903	+ $ 75	+$ 896
Total	$3,258	+ $141	+$ 983
Corporates:			
Moody's Aa Composite (1/10/91)	9.41%	+ .11	+ .21
30-Day Visible Supply ($ Million)	$ 525	+ $225	- $2,300
Stocks: (1:30 p.m.)			
Dow-Jones Averages:			
Industrials	2,492.34	- 73.75	- 196.87
Transportation	905.46	- 3.65	- 235.19
Utilities	204.23	- 3.71	- 16.47
65 Stocks	887.20	- 18.40	- 115.11
N.Y.S.E. Composite Index	172.29	- 3.66	- 16.03
N.Y.S.E. Avg. Daily Vol. for Week (000's)	147,829	+ 17,159	- 14,769

*34% Taxable equivalent 10.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/11/91	Week Ago
Overnight	6.94%	7.31%
1 month	7.06	7.31
3 month	7.25	7.31
6 month	7.25	7.31
1 year	7.31	7.31

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/11/91)	Currency Per U.S. $	Week Ago
Belgium	31.66	30.83
Canada	1.1547	1.1540
France	5.2130	5.0785
Germany	1.5365	1.4930
Italy	1156.00	1123.00
Japan	134.30	132.05
Mexico	2954.60	2951.40
Netherlands	1.7310	1.6835
South Korea	704.18	703.19
Switzerland	1.2870	1.2755
Taiwan	26.70	26.63
U.K.*	1.9035	1.9450

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/11/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.9%	-7.8%

in the three percent neighborhood, half the national average, and many local firms are adding, rather than trimming staff.

The Farm Belt, too, continues to rebound strongly from its mid-1980s downturn. Farm land values, retail sales and incomes are rising, while unemployment rates are either falling, as in Nebraska where it has dipped to two percent, or holding steady. Finally, higher energy prices bode well for the Oil Patch—they already have produced an increase in the number of working oil and gas drilling rigs, and there are some signs that the prolonged collapse of real estate in the region has ended.

At this juncture, the national recession has yet to affect everywhere or everyone. Large pockets of economic expansion persist, both within industries and regions. Not only is this a positive sign for the economy's prognosis, but it also helps explain something else: Why, in the midst of recession, there is a five-month waiting list for theater tickets to popular Broadway shows, a scramble for reservations at some of the nation's priciest restaurants—and no-vacancy signs at many of winter's most popular and expensive vacation destinations. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	**$ Change Since**	
Reserve Bank Credit	**1/2/91**	**Week Ago**	**Year Ago**
U.S. Gov'ts and Agencies Owned Outright & RPs	252.948	+ 4.110	+17.136
Loans to Depository Inst.	.267	- .586	- .257
Float	4.689	+ 3.357	+ 3.542
Total Reserve Bank Credit	298.224	+ 6.831	+21.781
Treasury Deposits with Federal Reserve Banks	7.987	+ 1.177	+ 1.705
Currency in Circulation	286.860	+ 1.932	+26.292
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.134	- 1.550	+21.033
Member Bank Reserves:	**1/2/91**		
Total Reserves Held	66.295	+ 3.786	+ 2.586
Excess (Deficiency)	3.472	+ 1.552	+ 2.355
Net Free Reserves	3.198	+ 1.760	+ 2.401
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (12/31/90)	832.2	+ 1.9	+ 3.9
M2 (12/31/90)	3,325.0	+ 0.3	+ 3.1
M3 (12/31/90)	4,084.2	- 0.4	+ 1.1
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/2/91	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	6.20%	6.30%	6.23%
* Federal Agencies	7.00	7.00	7.05
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.58	7.95	7.95
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.20	7.30	7.30

‡ Finance Company Paper–Prime	
5- 14 days	6.43%
15- 29 days	6.75
30- 59 days	6.89
60- 89 days	6.90
90-179 days	6.72
180-239 days	6.60
240-270 days	6.60

‡* Bankers' Acceptances	
Feb.	7.00%
Mar.	7.00
Apr.	7.00
May	7.00
Jun.	7.00
Jul.	7.00

‡ Industrial Paper–Prime	
30- 89 days	6.96%
90-120 days	7.00

†Federal Funds Effective Rate 6.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

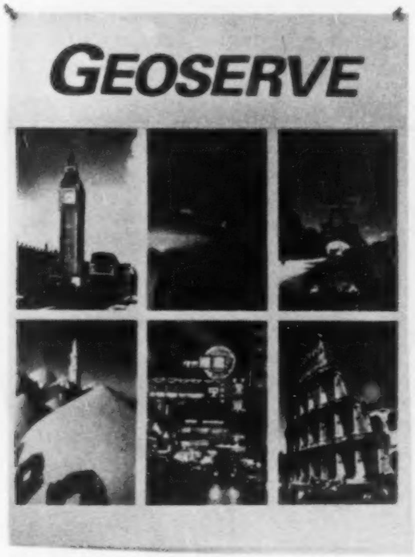
	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross National Product (Current Dollars)*	3rd Q'90	$ 5,515	$ 5,443	$ 5,239
Gross National Product (1982 Dollars)*	3rd Q'90	$ 4,170	$ 4,155	$ 4,130
Percent Change, Annual Rate	3rd Q'90	1.4	0.4	1.7
Change in Consumer Prices*	Nov '90	3.6%	7.2%	3.6%
Change in MH Cost of Living Index*	Nov '90	4.8%	3.6%	4.8%
Change in Producer Prices*	Dec '90n	- 7.2%	6.0%	7.2%
Civilian Employment (Thousands of Persons) †	Dec '90n	117,574	117,386r	117,957r
Unemployment as % of Civilian Labor Force †	Dec '90n	6.1%	5.9%	5.3%
Personal Income*	Nov '90	$ 4,710	$ 4,697	$ 4,470
Leading Indicators Composite Index (1967=100) †	Nov '90	139.7	141.4	144.6
Industrial Production Index (1977=100) †	Nov '90	107.5	109.4	108.1
Net Change in Consumer Installment Credit †	Nov '90n	$ 1.72	$ 1.37	$ 3.77
U.S. Merchandise Trade Balance †	Oct '90	- $ 11.61	- $ 9.33	- $ 10.15
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Nov '90	1,129	1,033	1,347
New Construction Expenditures*	Nov '90n	$ 422.4	$ 425.1r	$ 433.4
Total Business Inventories †	Oct '90	$ 813.9	$ 810.8	$ 794.0
Total Business Sales †	Oct '90	$ 551.9	$ 547.2	$ 526.1

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Global

With Customers In Over 100 Countries, We Speak A Universal Language.



The language that moves the world's portfolios. With speed. With ease. With custodial expertise that's not just talk.

It's technology. Our unsurpassed securities workstation — GEOPAC℠ An electronic messenger that delivers all the information you need to manage your investments. Real-time. On-line. Just press the key.

It's presence. A network of subcustodians with the local clout to process your orders smoothly, successfully. A persuasive voice heard all across the globe.

It's commitment. An organization settling a single transaction every other second and over 10,000 every single day. Faster than you can say GEOSERVE.

When you talk — we listen. In your language. Let us hear from you. In New York, call Diane Reyes, Vice President at (212) 270-4694 or in London, John Gibson, Vice President at (01) 932-3609.

GEOSERVE℠
We Get Around

©1990 Manufacturers Hanover Trust Company
All Rights Reserved. Member FDIC. Member of the Securities Association.

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 2

Monday, January 28, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Breakdown Of GATT Talks Threatens World Trade

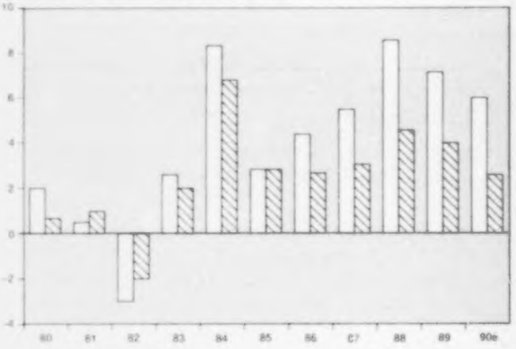
Now that the debt-ridden countries of the developing world and the emerging democracies of Eastern Europe have been won over to the advantages of free markets versus state-managed economies, it would be tragic if they were given a signal that the industrial nations are moving in the opposite direction in the area of international trade. Yet, this is exactly what could happen if the Uruguay round of trade talks, which was suspended last month because of a dispute over farm subsidies between the United States and the 12-nation European Community (E.C.), fails to resume.

The United States, seeking ways to cut its ballooning budget deficit, is insisting on deep cuts in government subsidies to farmers from all members of the international trade body known as GATT (General Agreement for Tariffs and Trade). Supporting the U.S. position is the 14-nation Cairns Group of farm exporting countries, whose members include such industrial nations as Canada and Australia, as well as such less developed countries as Argentina and Brazil. Many of the poorer countries in the Cairns Group who can't afford to subsidize their farmers believe that their export earnings are being reduced because subsidies in other countries rob them of markets for their agricultural products. At the same time, subsidies result in overproduction and, therefore, in lower prices for farm products on international markets. However, proposals to reduce farm subsidies are meeting strong resistance from the E.C., whose farmers are among the most protected in the world. As a result, although agriculture accounts for only 11 percent of world commerce, the trade talks have broken down because the GATT members have refused to reach agreements on other issues until the farm subsidies dispute is settled.

What Is GATT?

GATT has governed world trade in industrial products for 43 years. It was formed shortly after World War II, when representatives of 23 nations met in Geneva in 1947 in an effort to reform the global trading system that was plagued by high tariffs, import quotas and other trade barriers. The resulting general agreement, which stipulates that a trade advantage given to one country must be unconditionally granted to all other GATT members, is linked to an international organization of member countries. Its purpose is to promote trade liberalization through multilateral bargaining rounds and to settle trade disputes between countries by referring to a code of international trading rules.

AVERAGE ANNUAL PERCENT CHANGE IN VOLUME OF WORLD TRADE (CLEAR BARS) AND OUTPUT (SHADED BARS)



Sources: GATT; MH e=estimate

GATT's membership has increased from the 23 founding nations to 107 countries today, who together account for around 90 percent of world trade. Seven completed rounds of negotiations have slashed tariffs from an average of 40 percent in 1947 to less than five percent today. What is more, under GATT, the volume of world trade has grown more than tenfold over the past four decades. Indeed, as the volume of global trade has grown much faster than economic output for most of the 1980s, the world has come to rely on trade as an engine of economic growth (see chart).

Despite GATT's successes, however, the large trade imbalances between the United States, Germany and Japan have strained the global trading system since the mid-1980s, producing a sharp rise in protectionism and non-tariff barriers such as "voluntary" import quotas. In order to confront these problems, as well as to modernize existing trading rules in industrial products and to extend these rules to such new areas as agriculture, textiles, intellectual property, foreign investment and services—which, by the

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

way, is currently the fastest growing component of trade for most industrial countries—representatives of the 107 GATT members began meeting in Uruguay in 1986.

Although there has been substantial progress in negotiations in many of these areas, there is now a danger that, unless the farm dispute is settled, the four years of trade talks under the Uruguay round will come to naught. While the European Community should be more flexible—its farmers account for only seven percent of its workforce and produce a mere three percent of its GNP—the United States must remember that the Community's agriculture policy is deeply engrained in its political and social system. Consequently, subsidies cannot be dismantled overnight. U.S. threats to retaliate by increasing its own farm subsidies and by allowing Congress to "look out for our own interests" are also counterproductive.

Free Trade Benefits Everyone

At a time when a number of countries are involved in a war in the Middle East, the United States and several other nations are in recession, global economic growth is slowing and the debt-ridden developing countries and the Eastern European nations are struggling to restructure their economies, the breakdown of the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	211,643	- 106	- 6,710
New York City (1/16/91)	35,748	+ 371	- 5,935
Commercial Paper (1/16/91)	564,363	- 1,485	+ 31,196

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	321,314	- 637	+ 1,861
New York City (1/16/91)	56,558	+ 667	- 210

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	1,072,019	- 136	+ 71,906
New York City (1/16/91)	176,964	+ 2,493	- 4,252

Financial Markets

	Friday 1/25/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.33%	+ .10	- 1.59
180-Day Bills†	6.50	-0-	- 1.33
Longest Bills†	6.58	- .01	- 1.48
Recent Issues:			
7s 1/31/92 (When Issued)	7.09	NA	
7½s 1/31/96 (When Issued)	7.67	NA	
8½s 11/15/00	8.06	+ .04	
8¾s 8/15/20	8.24	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/24/91)	7.06%	- .04	- .13
Blue List Total ($ Million)	$1,070	- $197	- $ 344
30-Day Visible Supply ($ Million)	$1,380	- $522	- $ 108
Total	$2,450	- $719	- $ 452
Corporates:			
Moody's Aa Composite (1/24/91)	9.35%	+ .02	+ .04
30-Day Visible Supply ($ Million)	$ 735	+ $210	- $2,446
Stocks:			
Dow-Jones Averages:			
Industrials	2,659.41	+ 12.63	+100.18
Transportation	1,036.49	+ 35.43	- 64.68
Utilities	206.93	+ 1.01	- 11.13
65 Stocks	957.77	+ 12.89	- 5.57
N.Y.S.E. Composite Index	183.38	+ 2.51	+ 3.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	191,984	+ 9,778	+10,486

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/25/91	Week Ago
Overnight	6.94%	6.31%
1 month	6.75	7.19
3 month	6.94	7.31
6 month	6.94	7.31
1 year	7.13	7.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/25/91)	Currency Per U.S. $	Week Ago
Belgium	30.74	31.20
Canada	1.1653	1.1597
France	5.0720	5.1400
Germany	1.4925	1.5125
Italy	1121.20	1136.00
Japan	132.35	133.55
Mexico	2960.20	2957.80
Netherlands	1.6810	1.7050
South Korea	705.26	705.06
Switzerland	1.2710	1.2710
Taiwan	26.63	26.74
U.K.*	1.9550	1.9290

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/25/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.3%	-6.9%

GATT trade negotiations could not have come at a worse moment. Although an all-out international trade war on the scale of that experienced in the 1930s is highly unlikely, trade friction and increased protectionism could hamper trade flows among nations, limit new business opportunities and the jobs they would create, and curb economic growth at a time when the world economy badly needs an extra boost.

The United States, for example, with its strong competitive advantage in many services, could lose many opportunities if free trade is obstructed in these areas. What is more, because intellectual property is not covered by GATT rules at the moment, the piracy of such items as patents, copyrights, trademarks, and microchip designs is reckoned to cost this country around $60 billion every year. At the same time, the IMF estimates that halting the industrial world's farm subsidies could raise agricultural exports of the developing nations by $30 billion per year. So, while just about everyone loses when free trade is obstructed, perhaps the biggest victims if the GATT negotiations don't resume will be the world's consumers—including Europe's farmers—who will have to pay higher prices for a smaller selection of goods and services. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/23/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	239.185	- 2.902	+12.102
Loans to Depository Inst.	1.354	+ .940	+ .974
Float	.852	- .709	- .108
Total Reserve Bank Credit	280.907	- 2.656	+13.006
Treasury Deposits with Federal Reserve Banks	5.494	+ .174	- .436
Currency in Circulation	283.689	- .879	+28.457
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.886	- .118	+21.244
Member Bank Reserves:	1/23/91		
Total Reserves Held	60.476	- 5.986	- .644
Excess (Deficiency)	.653	- 3.038	- .188
Net Borrowed Reserves	.203	+ 3.621	+ .771

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (1/14/91)	820.5	+ 2.0	+ 3.7
M2 (1/14/91)	3,316.9	- 0.2	+ 3.0
M3 (1/14/91)	4,093.3	+ 0.1	+ 1.2
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/25/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.18%	6.24%	6.20%
* Federal Agencies	6.45	6.60	6.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.58	7.88	8.03
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.90	6.95	7.10

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.62%	Feb.	6.77%
15- 29 days	6.70	Mar.	6.73
30- 59 days	6.65	Apr.	6.77
60- 89 days	6.75	May	6.73
90-179 days	6.73	Jun.	6.68
180-239 days	6.66	Jul.	6.62
240-270 days	6.66		

‡ Industrial Paper–Prime			
30- 89 days	6.78%	†Federal Funds	
90-120 days	6.75	Effective Rate	8.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90n	$ 5,519	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90n	$ 4,146	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90n	- 2.1	1.4	0.3
Change in Consumer Prices*	Dec '90n	3.6%	3.6%	4.8%
Change in MH Cost of Living Index*	Dec '90n	4.8%	4.8%	4.8%
Change in Producer Prices*	Dec '90	- 7.2%	6.0%	7.2%
Civilian Employment (Thousands of Persons) †	Dec '90	117,574	117,386	117,957
Unemployment as % of Civilian Labor Force †	Dec '90	6.1%	5.9%	5.3%
Personal Income*	Nov '90	$ 4,710	$ 4,697	$ 4,470
Leading Indicators Composite Index (1967=100) †	Nov '90	139.7	141.4	144.6
Industrial Production Index (1977=100) †	Dec '90n	107.1	107.8	108.6
Net Change in Consumer Installment Credit †	Nov '90	$ 1.72	$ 1.37	$ 3.77
U.S. Merchandise Trade Balance †	Nov '90n	- $ 9.70	- $ 10.99r	- $ 9.91
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Dec '90n	987	1,127r	1,273
New Construction Expenditures*	Nov '90	$ 422.4	$ 425.1	$ 433.4
Total Business Inventories †	Nov '90n	$ 816.4	$ 814.3r	$ 797.6r
Total Business Sales †	Nov '90n	$ 545.0	$ 551.6r	$ 528.2r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER
Experience
The Rewards of Loyalty
It's finding us there when you need someone who's been there before.

No matter what problems you encounter in business, chances are we've encountered them before, and can help.

Our experience helps us build relationships of trust with our customers, relationships where loyalty has a chance to take root and flourish. With loyalty established, understanding is more complete; decisions come more easily; useful new ideas occur more readily; turnaround time is shorter; growth is accelerated.

We build loyalty by working hard to learn your business and by becoming an integral part of your team. In particular you'll find your Account Officer's experience in analogous situations a big help in solving problems and formulating a successful growth strategy. Helping businesses grow has always been a traditional strength of ours, and will always be a major commitment.

We'd like to be your bank for the life of your business.℠

The Business Banking Group

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 3

Monday, February 11, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Federal Red Ink At Flood Stage

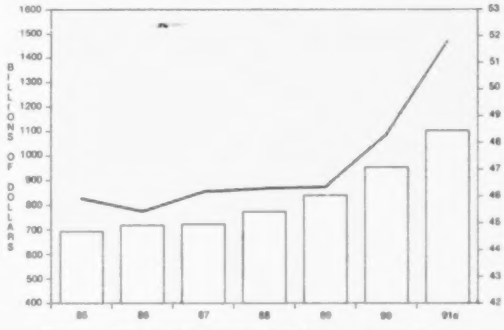
While the budget woes of the Federal government have recently taken a backseat to concerns surrounding the depth and duration of today's business downturn, the severity of the credit crunch and the ultimate outcome of the Persian Gulf crisis, last week's unveiling of the fiscal year 1992 budget provided a powerful reminder of Washington's financial disarray. For notwithstanding some highly optimistic economic assumptions which help to eliminate the red ink within five years, the nearer-term reality is much less upbeat than the Administration's longer-term hopes.

The President estimates that the deficit in the current fiscal year will soar to a record $318 billion. Fiscal year 1992 is hardly better—a red-ink total of $280 billion is projected. As has been the case for years, the core of the problem remains riveted in the relentless rise of Federal spending and the inability of receipts to keep pace, a by-product of half-hearted deficit reduction attempts, the explosive growth of so-called "entitlement" outlays and the mounting cost of servicing the burgeoning Federal debt.

To be sure, unforeseen events have wreaked havoc with efforts to tame the Federal deficit. Last year, for example, there was a fair degree of optimism within the Administration, if nowhere else, that the fiscal 1991 deficit could be held in the $100 billion neighborhood—until the Gulf conflict started to add "hundreds of millions of dollars" daily to this total, and the onset of recession threatened to add billions more. Nevertheless, it would be a mistake to assume that these factors alone are at the root of the monstrous deficits now emerging. The flow of red ink was headed toward flood stage even in the absence of these developments, and even in the wake of the much ballyhooed, bipartisan budget agreement cobbled together last fall.

Although portrayed as a good-faith effort to tackle rapidly escalating spending levels and burgeoning deficits, the budget accord did neither, certainly not in the current fiscal year and probably not in subsequent ones as well. For one thing, the $22 billion of proposed spending cuts in fiscal year 1991, for example, were to be taken from previously scheduled levels. But, since these levels had already been jacked up by some $85 billion compared with fiscal 1990, Federal spending was going to vault to a record in the current fiscal year no matter what happened to the economy or in the Gulf region. For another, the proposed $18 billion of tax increases were only playing catch up with the higher spending levels, ensuring that the deficit, too, was on the road to an all-time high.

FEDERAL GOVERNMENT: NONDEFENSE OUTLAYS (BARS) VS. MANDATORY OUTLAYS AS A PERCENT OF TOTAL OUTLAYS (LINE)



Source: Office of Management & Budget e=estimate

Some Culprits

The inability of the budget accord to actually reduce the deficit, rather than simply curb its growth, underscores the intractability of the vicious spending circle which plagues Washington and, by extension, the rest of the nation. One culprit is the budget preparation process itself, in particular some of the changes embedded in the budget reform law of 1974. Another is the explosive growth of mandated entitlement spending, making payments to people and businesses who meet eligibility rules set by law, and which has more than offset any actual, and contemplated tapering down of military-related spending.

Take, for example, the impact of the budget reform law of 1974. Under this law, spending levels in each new fiscal year are automatically hiked by some percentage due to inflation and other factors. Only after this is done, does

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

Congress tackle the budget. This means that the deck is stacked against those seeking to restore Federal financial health, since any spending "cuts" are taken from constantly escalating spending levels, producing outlay totals that almost always rise, and tax revenues that never seem to catch up with the spending stream. That being the case, the prognosis for diminishing the spending flow is just not good—especially when you consider the ongoing surge in entitlement and other mandated outlays.

While the costs of the Gulf conflict will hike defense spending briefly, this is only a sidebar to the principal problem facing the cost-cutters. Whereas defense spending peaked in inflation-adjusted terms years ago, in fiscal 1987, and declined even in current dollar terms in fiscal 1990, any savings are being more than gobbled up by an acceleration of nondefense spending, which increased by more than 13½ percent in fiscal 1990 alone. This was fueled by a better than 14 percent increase in spending associated with such entitlement programs as Medicare, agricultural subsidies and student loan programs. As shown in the chart, entitlement spending has now surged past the $600 billion mark, accounting for more than half of total Federal outlays. Nor does this include the phoenix-like rise of net interest payments. As

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (1/23/91)	212,147	- 411	- 5,024
New York City (1/30/91)	34,094	- 1,279	- 7,187
Commercial Paper (1/30/91)	567,507	+ 4,287	+ 36,654

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (1/23/91)	318,127	- 668	+ 573
New York City (1/30/91)	56,301	+ 78	- 1,184

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since**	
		Week Ago	**Year Ago**
Nationwide (1/23/91)	1,057,933	- 4,241	+ 58,903
New York City (1/30/91)	174,933	- 1,349	- 6,578

Financial Markets

	Friday 2/8/91	**Change Since**	
		Week Ago	**Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	6.07%	- .09	- 1.92
180-Day Bills†	6.14	- .08	- 1.94
Longest Bills†	6.17	- .07	- 1.84
Recent Issues:			
7s 1/31/93	6.77	- .04	
7½s 1/31/96	7.39	- .06	
7¾s 2/15/01 (When Issued)	7.76	NA	
7⅞s 2/15/21 (When Issued)	7.94	NA	
Municipals:			
Bond Buyer—20 Bond Index* (2/7/91)	6.86%	- .14	- .34
Blue List Total ($ Million)	$ 821	- $105	- $ 293
30-Day Visible Supply ($ Million)	$3,369	+ $808	+$2,051
Total	$4,190	+ $703	+$1,758
Corporates:			
Moody's Aa Composite (2/7/91)	9.19%	- .13	- .26
30-Day Visible Supply ($ Million)	$ 505	+ $ 80	- $2,195
Stocks:			
Dow-Jones Averages:			
Industrials	2,830.69	+ 100.00	+182.49
Transportation	1,102.25	+ 38.78	+ 14.06
Utilities	214.66	+ 9.30	- 9.25
65 Stocks	1,014.91	+ 37.13	+ 32.55
N.Y.S.E. Composite Index	196.10	+ 8.70	+ 11.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	259,755	+ 64,813	+104,609

*34% Taxable equivalent 10.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 2/8/91**	**Week Ago**
Overnight	6.34%	6.94%
1 month	6.34	6.69
3 month	6.56	6.63
6 month	6.50	6.63
1 year	6.75	6.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/8/91)	**Currency Per U.S. $**	**Week Ago**
Belgium	30.02	30.19
Canada	1.1593	1.1605
France	4.9680	4.9930
Germany	1.4590	1.4675
Italy	1097.70	1103.50
Japan	127.90	131.55
Mexico	2966.20	2963.40
Netherlands	1.6440	1.6545
South Korea	707.53	705.16
Switzerland	1.2458	1.2550
Taiwan	26.62	26.63
U.K.*	1.9865	1.9745

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/8/91) (Adjusted for Inflation)	**Change Since**	
	Week Ago	**2/27/85**
	+0.1%	-6.6%

the Federal debt has ballooned, so has its servicing costs, which will be just a shade below $200 billion this year—or more than double the total cost as recently as fiscal 1983.

More Taxes?

In the absence of an effective brake on spending growth, whether or not taxes are an appropriate long-term palliative for today's budget ills is problematic. Over the past five years, nearly $4.6 trillion has been extracted from the taxpaying public, increasing by about seven percent annually, yet the deficit problem not only persists—it has worsened. Nor will putting on the brakes be easy.

Tackling entitlement spending, with sizable domestic constituencies, will require substantial political resolve. All that the "number crunchers" and economists can do is propose reform; legislators must enact it. In this environment, a spending freeze might be ideal if for no other reason than it spreads the pain without distinction. But what is increasingly unacceptable is the tinkering around the edges of these various programs. That approach does little to address the yawning budget deficit, yet does manage to erode confidence, breed cynicism and keep the financial market "bears" well fed. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/6/91	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	243.181	- 2.085	+22.320
Loans to Depository Inst.	.087	- .206	- .793
Float	1.221	+ .395	+ .168
Total Reserve Bank Credit	285.556	- .850	+22.591
Treasury Deposits with Federal Reserve Banks	11.182	- 2.881	+ 5.077
Currency in Circulation	282.939	- .187	+29.289
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	255.062	- .310	+25.415
Member Bank Reserves:	2/6/91		
Total Reserves Held	60.446	- .241	+ .990
Excess (Deficiency)	2.798	+ 1.880	+ 1.578
Net Free Reserves	2.638	+ 2.576	+ 2.250
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (1/28/91)	830.1	+ 2.9	+ 3.9
M2 (1/28/91)	3,339.1	+ 1.2	+ 3.2
M3 (1/28/91)	4,144.2	+ 3.4	+ 2.0
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/8/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.94%	5.90%	5.86%
* Federal Agencies	6.45	6.60	6.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.50	6.50	6.68

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.27%	Mar.	6.37%
15- 29 days	6.30	Apr.	6.38
30- 59 days	6.16	May	6.33
60- 89 days	6.33	Jun.	6.28
90-179 days	6.28	Jul.	6.24
180-239 days	6.05	Aug.	6.18
240-270 days	6.05		

‡ Industrial Paper–Prime			
30- 89 days	6.33%	†Federal Funds	
90-120 days	6.35	Effective Rate	5.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

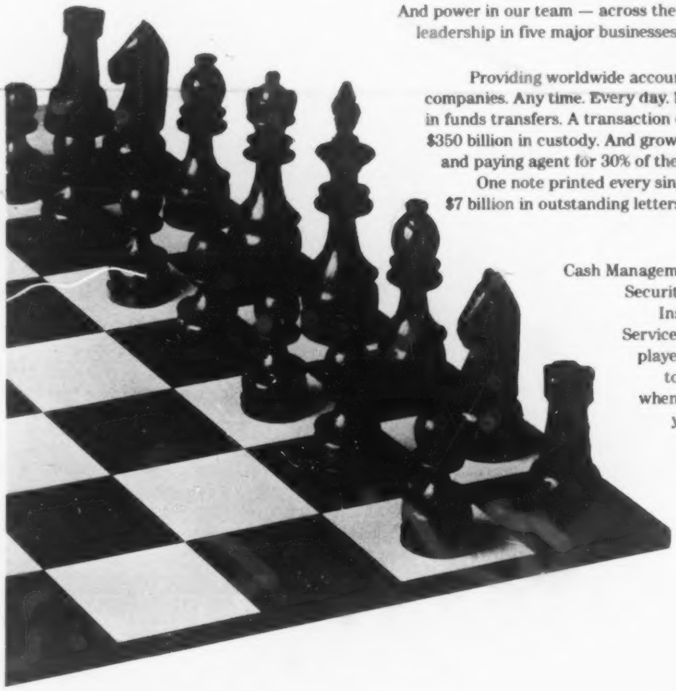
	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,519	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,148	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.1	1.4	0.3
Change in Consumer Prices*	Dec '90	3.6%	3.6%	4.8%
Change in MH Cost of Living Index*	Dec '90	4.8%	4.8%	4.8%
Change in Producer Prices*	Dec '90	- 7.2%	6.0%	7.2%
Civilian Employment (Thousands of Persons) †	Jan '90n	116,922	117,574	117,945
Unemployment as % of Civilian Labor Force †	Jan '90n	6.2%	6.1%	5.3%
Personal Income*	Dec '90n	$ 4,747	$ 4,714r	$ 4,497
Leading Indicators Composite Index (1967=100) †	Dec '90n	140.1	140.0r	145.3
Industrial Production Index (1977=100) †	Dec '90	107.1	107.8	108.6
Net Change in Consumer Installment Credit †	Dec '90n	- $ 1.45	$ 2.76	$ 2.72
U.S. Merchandise Trade Balance †	Nov '90	- $ 9.70	- $ 10.99	- $ 9.91
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Dec '90	987	1,127	1,273
New Construction Expenditures*	Dec '90n	$ 415.1	$ 417.1r	$ 432.0
Total Business Inventories †	Nov '90	$ 816.4	$ 814.3	$ 797.6
Total Business Sales †	Nov '90	$ 545.0	$ 551.6	$ 528.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Leadership

There's Strength In Our Numbers — Across The Board.



And power in our team — across the globe. The power that fuels leadership in five major businesses. Leadership that performs.

Providing worldwide account information to over 2000 companies. Any time. Every day. Processing over $200 billion in funds transfers. A transaction every other second. Holding $350 billion in custody. And growing daily. Serving as issuing and paying agent for 30% of the commercial paper market. One note printed every single second. Supporting over $7 billion in outstanding letters of credit and acceptances. Unbeatable performance.

Cash Management, Funds Transfer, Global Securities Services, Corporate and Institutional Trust, and Trade Services. Leaders. GEOSERVE. The player to contact when you need to win. The people to contact when you have to succeed. Make your move with GEOSERVE.

Call James P. Witkins,
Senior Vice President,
at (212) 270-7812.

©1990 Manufacturers Hanover Trust Company.
All Rights Reserved. Member FDIC. Member of the Securities Association

GEOSERVE℠
The Master Player

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 4

Monday, February 25, 1991

Analysis of Business Trends Plus Selected Financial Indicators

The Dollar Plunges to Record Lows

Although investors traditionally flock to buy dollars during times of war, the U.S. currency seems to have lost its "safe-haven" allure this time around. After spiking higher when U.S.-led forces initially attacked Iraq on January 16, the dollar then quickly moved in the opposite direction, falling to record lows against the German mark and Swiss franc, and to its weakest level in a decade against the British pound, French franc and Spanish peseta.

The dollar's general weakness reflects the fact that economic and interest rate considerations are strongly outweighing political factors in today's foreign exchange markets. In fact, worries about worsening economic performance and falling interest rates in the United States, contrasting with robust economic growth and rising rates in Germany, have been undermining the dollar's value against the mark for over a year.

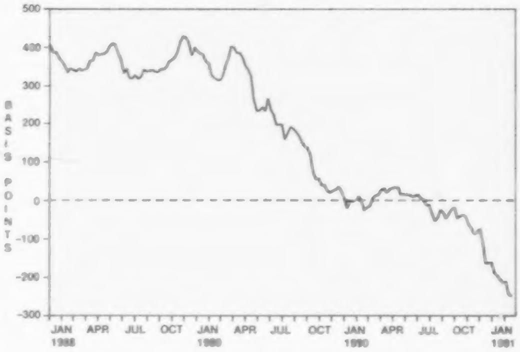
Just how far apart these two economies are in the business cycle was made clear earlier this month when the German Bundesbank and U.S. Federal Reserve chose to pull in diametrically opposite directions with their respective changes in official interest rates. On January 31, the Bundesbank lifted its two key interest rates by a half percentage point, bringing the discount rate to 6½ percent and the Lombard rate to nine percent. The following day, the Federal Reserve lowered the U.S. discount rate by a half percentage point to six percent and signaled a 50 basis point reduction in the Federal funds rate. As a result, the differential between German and U.S. interest rates widened to around 250 basis points in Germany's favor. Two years ago, the differential was 400 basis points in favor of the United States (see chart).

Manufacturers Hanover Economics Department 17/270

Bundesbank and Fed Go Their Separate Ways

Despite pressures from the Bonn government at home and Finance Ministers abroad to avoid monetary tightening at the present time because of such international considerations as the slowing of global economic growth and uncertainties surrounding the Gulf war, the Bundesbank felt that its first duty was to maintain price stability in Germany. Monetary officials have repeatedly voiced their concerns about possible inflation dangers from rapid money supply growth, excessive wage demands and Bonn's ballooning budget deficit. Indeed, only hours before the Bundesbank lifted its rates, metalworkers in southwest Germany put in their claims for a ten percent wage hike.

SPREAD BETWEEN 3-MONTH EURODOLLAR AND EUROMARK RATES (WEEKLY AVERAGES)



Source: MH

After several years of buoyant growth in corporate profits and with industry in the west coming up against capacity constraints, the Bundesbank is apparently concerned that, rather than face a prolonged period of labor unrest, employers will be more prone to give in to union demands for large wage increases. At the same time, signs that the deteriorating economy in the region that was once East Germany is far worse than expected means that government outlays will be much higher than planned this year, causing the 1991 budget deficit to exceed $100 billion, equivalent to almost five percent of Germany's economy.

While the Bundesbank is worrying about inflation pressures in Germany, the Federal Reserve, on the other hand, has become increasingly concerned about the length and depth of the recession here in the United States. As a result, the release of January's extremely bleak employment data, followed by news that the purchasing managers' index sank to a nine-year low, prompted the usually cautious Fed Chairman, Alan Greenspan, to implement a swift half percentage point cut in both

270 Park Avenue, New York, NY 10017

the discount and Fed funds rates.

While these abrupt changes in monetary policy in both countries triggered the dollar's fall against the mark, its descent was hastened by the market's perception that neither government is too concerned about the dollar's decline. This is because a strong mark bears down on German inflation and helps to attract much needed investment to the east, while a weak dollar can provide a stimulus to the U.S. economy by boosting exports.

Cross Rates Remain Stable

Although the combination of widening interest rate differentials and poor U.S. economic growth prospects triggered a collapse of the dollar against the Deutschemark, the hike in German interest rates provoked only a modest appreciation of the mark against the Japanese yen, Swiss franc and the currencies belonging to the European Monetary System (EMS). As a result, most other central banks did not feel obliged to lift their interest rates in order to preserve the value of their currencies against the Deutschemark. In fact, the stability of the peseta, which has been the EMS's strongest currency for over a year, enabled the Bank of Spain to cut its key money market rate by 20 basis points to 14½ percent. This, in turn, gave

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/6/91)	211,813	+ 2,625	- 5,427
New York City (2/13/91)	33,948	- 240	- 7,475
Commercial Paper (2/13/91)	567,586	- 3,686	+ 32,906

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/6/91)	318,972	+ 2,042	- 610
New York City (2/13/91)	57,310	+ 465	- 956

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/6/91)	1,061,212	+ 8,396	+ 60,711
New York City (2/13/91)	176,924	- 511	- 8,095

Financial Markets

	Friday 2/22/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.11 %	+ .05	- 1.81
180-Day Bills†	6.21	+ .06	- 1.86
Longest Bills†	6.30	+ .07	- 1.79
Recent Issues:			
7s 1/31/93	6.97	+ .17	
7½s 1/31/96	7.58	+ .18	
7¾s 2/15/01	7.91	+ .15	
7⅞s 2/15/21	8.08	+ .11	
Municipals:			
Bond Buyer—20 Bond Index* (2/21/91)	6.97 %	+ .16	- .30
Blue List Total ($ Million)	$1,445	+ $ 289	+$ 65
30-Day Visible Supply ($ Million)	$2,655	- $1,413	+$ 867
Total	$4,100	- $1,124	+$ 932
Corporates:			
Moody's Aa Composite (2/21/91)	9.15 %	+ .02	- .33
30-Day Visible Supply ($ Million)	$ 165	+ $ 87	- $1,185
Stocks:			
Dow-Jones Averages:			
Industrials	2,889.37	- 45.28	+325.18
Transportation	1,125.35	+ 6.17	+ 44.09
Utilities	215.36	- .12	- 1.50
65 Stocks	1,033.24	- 7.11	+ 74.89
N.Y.S.E. Composite Index	199.64	- 1.65	+ 20.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	193,739	- 43,179	+33,361

*34% Taxable equivalent 10.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/22/91	Week Ago
Overnight	6.50%	6.56%
1 month	6.44	6.38
3 month	6.63	6.50
6 month	6.63	6.50
1 year	6.88	6.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/22/91)	Currency Per U.S. $	Week Ago
Belgium	30.73	30.37
Canada	1.1500	1.1529
France	5.0830	5.0285
Germany	1.4933	1.4760
Italy	1118.00	1109.70
Japan	131.40	130.30
Mexico	2971.80	2969.00
Netherlands	1.6830	1.6630
South Korea	708.41	707.92
Switzerland	1.2830	1.2690
Taiwan	26.63	26.64
U.K.*	1.9570	1.9710

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (2/22/91) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+0.8 %	-5.0 %

the Bank of England room to signal a half point cut in British base rates to 13½ percent. Despite the United Kingdom's deepening recession, the government has been extremely cautious about easing monetary policy because of the pound's weak position near the bottom of the EMS.

One reason why the Bundesbank's interest rate hikes did not destabilize the EMS is that a tightening of German monetary policy at some point had been expected by the market since last autumn. Another reason is that the Deutschemark's strength continues to be offset by market nervousness about the rising cost of German unity and political unrest in the Soviet Union.

Market nervousness about the rising cost of German unification and political unrest in the Soviet Union also suggests that the dollar's weakness against the Deutschemark and other European currencies will not last forever. Indeed, the overwhelming market bearishness that drove the dollar to record lows has eased in recent days on hopes that an early peace in the Gulf will boost the ailing U.S. economy, thus decreasing the chances of lower U.S. interest rates. If, on the other hand, the war drags on, the dollar could test new lows within the next several weeks. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/20/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	246.560	+ 3.004	+23.895
Loans to Depository Inst.	.282	+ .206	- 1.606
Float	.960	- .237	- .661
Total Reserve Bank Credit	287.013	+ 1.280	+22.832
Treasury Deposits with Federal Reserve Banks	9.728	- 1.460	+ 4.946
Currency in Circulation	284.780	+ .814	+29.550
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	254.164	- 1.770	+29.124
Member Bank Reserves:	**2/20/91**		
Total Reserves Held	60.034	- .448	+ .888
Excess (Deficiency)	1.929	- .822	+ .938
Net Free Reserves	1.776	- .814	+ 2.132
		‡ % Change Since 3 Months Ago*	**Year Ago**
Monetary Aggregates †			
M1 (2/11/91)	835.9	+ 5.0	+ 4.4
M2 (2/11/91)	3,352.5	+ 2.7	+ 3.2
M3 (2/11/91)	4,164.6	+ 4.4	+ 2.4
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/22/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.96%	5.97%	5.96%
* Federal Agencies	6.15	6.25	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.68	6.06	6.44
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.60	6.55	6.87

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.00%	Mar.	6.45%
15- 29 days	6.40	Apr.	6.55
30- 59 days	6.37	May	6.45
60- 89 days	6.50	Jun.	6.42
90-179 days	6.44	Jul.	6.40
180-239 days	6.30	Aug.	6.35
240-270 days	6.30		

‡ Industrial Paper–Prime			
30- 89 days	6.43%	†Federal Funds	
90-120 days	6.35	Effective Rate	5.75%

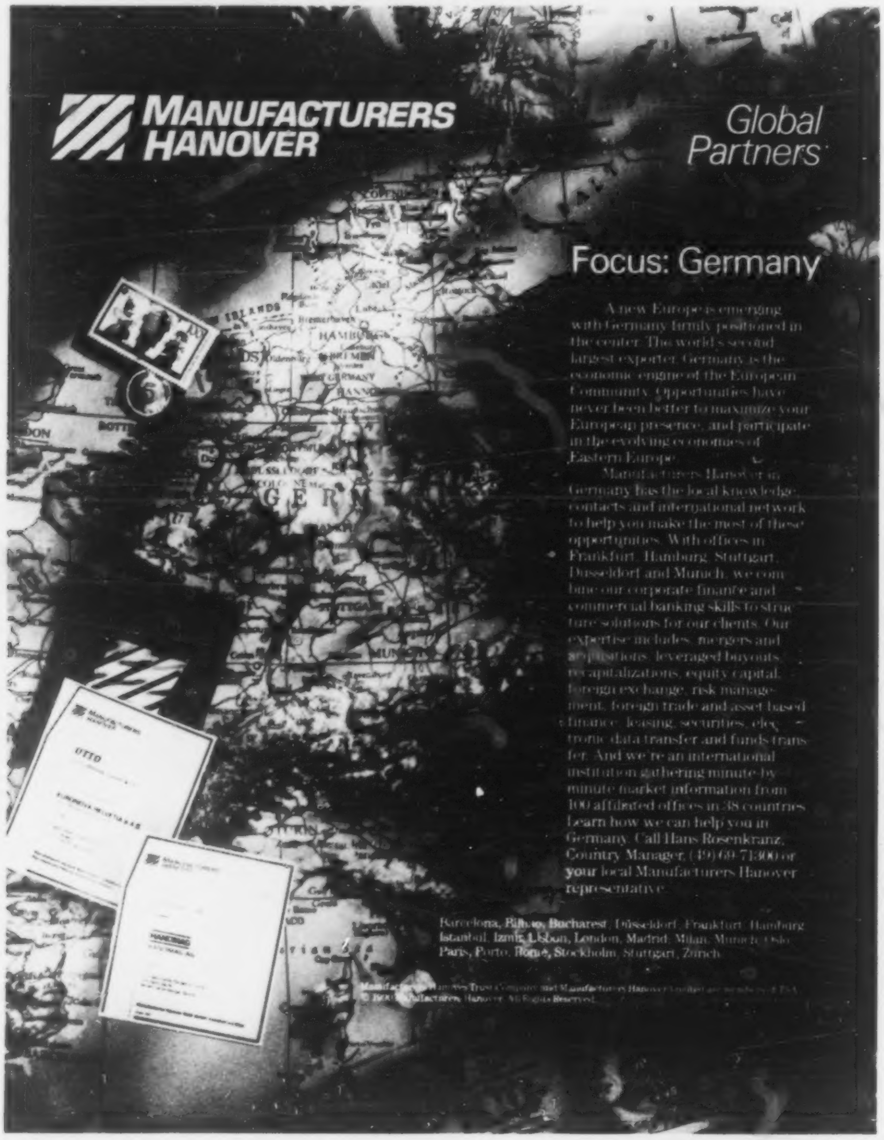
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,519	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,148	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.1	1.4	0.3
Change in Consumer Prices*	Jan '91 n	4.8%	3.6%	10.8%
Change in MH Cost of Living Index*	Jan '91 n	9.6%	4.8%	10.8%
Change in Producer Prices*	Jan '91 n	- 1.2%	- 7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Jan '91	116,922	117,574	117,945
Unemployment as % of Civilian Labor Force †	Jan '91	6.2%	6.1%	5.3%
Personal Income*	Dec '90	$ 4,747	$ 4,714	$ 4,497
Leading Indicators Composite Index (1967=100) †	Dec '90	140.1	140.0	145.3
Industrial Production Index (1977=100) †	Jan '91 n	106.5	107.0r	107.5
Net Change in Consumer Installment Credit †	Dec '90	- $ 1.45	$ 2.76	$ 2.72
U.S. Merchandise Trade Balance †	Dec '90 n	- $ 6.25	- $ 8.91r	- $ 6.80
Plant and Equipment Expenditures*	1st Q'91	$ 557.9 (a)	$ 532.8 (a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Jan '91 n	850	975r	1,543
New Construction Expenditures*	Dec '90	$ 415.1	$ 417.1	$ 432.0
Total Business Inventories †	Dec '90 n	$ 810.7	$ 816.1r	$ 795.1
Total Business Sales †	Dec '90 n	$ 530.9	$ 543.2r	$ 527.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.


MANUFACTURERS
HANOVER
OTTO

Global
Partners

Focus: Germany

A new Europe is emerging with Germany firmly positioned in the center. The world's second largest exporter, Germany is the economic engine of the European Community. Opportunities have never been better to maximize your European presence, and participate in the evolving economies of Eastern Europe.

Manufacturers Hanover in Germany has the local knowledge, contacts and international network to help you make the most of these opportunities. With offices in Frankfurt, Hamburg, Stuttgart, Dusseldorf and Munich, we combine our corporate finance and commercial banking skills to structure solutions for our clients. Our expertise includes: mergers and acquisitions, leveraged buyouts, recapitalizations, equity capital, foreign exchange, risk management, foreign trade and asset based finance, leasing, securities, electronic data transfer and funds transfer. And we're an international institution gathering minute-by-minute market information from 100 affiliated offices in 38 countries. Learn how we can help you in Germany. Call Hans Rosenkranz, Country Manager, (49) 69-71300 or **your** local Manufacturers Hanover representative.

Barcelona, Bilbao, Bucharest, Düsseldorf, Frankfurt, Hamburg, Istanbul, Izmir, Lisbon, London, Madrid, Milan, Munich, Oslo, Paris, Porto, Rome, Stockholm, Stuttgart, Zurich

Manufacturers Hanover Trust Company and Manufacturers Hanover Limited are members of [illegible]
© [illegible] Manufacturers Hanover. All Rights Reserved.

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20314

**Financial
Digest**

B5350-2A

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 5

Monday, March 11, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Is The Recession Winding Down?

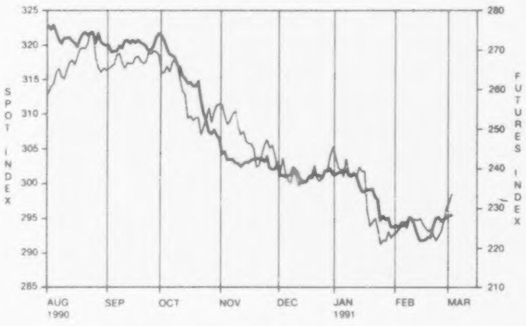
With the cessation of Persian Gulf hostilities, not only has the national mood brightened but, so, too, has the outlook for the U.S. economy. For although recession still plagues large chunks of the country, and should continue to do so for at least another few months, the removal of the heavy blanket of uncertainty which has enveloped the business environment since last August cannot help but have a salutary effect on consumer attitudes toward spending and corporate America's views toward investing. Indeed, enough tentative signs of life in the pace of business are now appearing to suggest that the current business downturn may well be no worse than the average post-World War II recession. However, with consumer confidence rebounding and industrial commodity prices rising, the stage has been set for a turn toward caution by the Federal Reserve, a development which may well preclude any further declines in interest rates in the weeks ahead.

To be sure, even the best-laid expectations can go awry, and the anticipation of an early summer rebound in the economy is fraught with more than the usual number of potential pitfalls. Corporate profitability, for example, remains anemic, threatening to pinch business spending severely unless reversed. Households, too, are being buffetted by ill winds, including rising joblessness and slower income growth. What is more, perceptions abound that a widespread credit crunch exists, extracting a mounting toll on the economy, and fueling the belief that any business rebound which does get underway might be quickly derailed.

Manufacturers
Hanover
Economics
Department
17/270

Nevertheless, some brighter economic news is breaking through the overcast. According to the Conference Board, consumer confidence has begun to climb out of the hole into which it fell following the onset of the Persian Gulf crisis, posting its largest monthly gain in February in three years. And, in what could be a harbinger of a bottoming of the slide in industrial activity, the Purchasing Managers' Index rose in February—the first monthly increase since last May.

RAW INDUSTRIALS DAILY INDEX: SPOT PRICES (THICK) VS. FUTURES PRICES (THIN)



Source: Commodity Research Bureau

Signs Of Life

Beyond the surveys, the results of which can be notoriously fickle, many of the economic statistics are firming, if not yet rising. The bolstering of consumer confidence has seemingly already had a beneficial effect on spending. Department store sales jumped in January, and new-car sales stabilized in February. Household attitudes may get a further fillip from some early signs that the erosion in their buying power is being stemmed. For one thing, help-wanted advertising has started to rise for the first time in five months. For another, the slowdown in the rate of inflation in general, and the decline in energy prices in particular, will permit a stretching of even modest income gains. Finally, the 26 percent run-up in equity prices since October, as well as the sharp rise in bond prices, have provided a powerful lift to household wealth.

Since inventories were generally lean virtually across the board when the current long-anticipated business downturn began, and were pared even further during the fourth quarter of last year, any sustained recovery in spending should spill over quickly into an early revival of output. While orders, production and industry

270 Park Avenue, New York, NY 10017

operating rates are still dropping, the bottom may be near, especially when you consider not only the absence of the need for lengthy inventory workdowns, but also the orders sure to flow from the rebuilding of Kuwait and the likelihood that defense spending will rise, not fall, as an after-effect of the Gulf crisis. Industrial raw materials prices certainly reflect this, behaving as if this view was not only a good bet, but a foregone conclusion. As shown in the chart, spot prices stopped falling in mid-February, and have since moved higher; futures prices have leaped by almost 5½ percent in the past two weeks alone.

Federal Reserve Caution

Admittedly, these are very tenuous signs of recovery, which could easily be reversed should some unexpected development occur. However, barring such an event, even very tentative signs of life in the economy will not escape notice at the Federal Reserve, and might be sufficient to impart a renewed degree of caution in monetary policy deliberations. Although still concerned about the prospect of an economy-hobbling credit crunch, the Fed may now decide to move to the sidelines, while attempting to assess the effects that several months of ease will have on near-term activity levels.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	209,069	- 467	- 7,690
New York City (2/27/91)	33,472	- 721	- 7,563
Commercial Paper (2/27/91)	569,645	+ 3,525	+ 29,448

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	320,603	+ 839	+ 993
New York City (2/27/91)	58,413	+ 157	- 465

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	1,063,657	+ 6,599	+ 57,080
New York City (2/27/91)	178,708	- 2,653	- 3,211

Financial Markets

	Friday 3/8/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.10%	- .16	- 2.15
180-Day Bills†	6.22	- .15	- 2.09
Longest Bills†	6.38	- .11	- 2.06
Recent Issues:			
6¾s 2/28/93	7.08	- .08	
7½s 2/29/96	7.74	- .03	
7¾s 2/15/01	8.11	- .01	
7⅞s 2/15/21	8.28	–0–	
Municipals:			
Bond Buyer—20 Bond Index* (3/7/91)	7.06%	+ .05	- .19
Blue List Total ($ Million)	$1,588	- $128	+$ 143
30-Day Visible Supply ($ Million)	$2,966	+ $250	+$ 534
Total	$4,554	+ $122	+$ 677
Corporates:			
Moody's Aa Composite (3/7/91)	9.19%	–0–	- $.28
30-Day Visible Supply ($ Million)	$ 265	–0–	- $1,185
Stocks:			
Dow-Jones Averages:			
Industrials	2,955.21	+ 45.31	+271.88
Transportation	1,127.64	- 23.10	- 11.41
Utilities	210.45	- 2.89	- 9.05
65 Stocks	1,042.80	+ .28	+ 43.40
N.Y.S.E. Composite Index	204.95	+ 2.56	+ 18.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	224,015	+ 21,231	+69,749

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/8/91	Week Ago
Overnight	6.38%	6.34%
1 month	6.63	6.88
3 month	6.63	6.81
6 month	6.63	6.81
1 year	6.94	7.06

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/8/91)	Currency Per U.S. $	Week Ago
Belgium	31.10	31.60
Canada	1.1638	1.1540
France	5.2830	5.2310
Germany	1.5580	1.5352
Italy	1164.77	1148.50
Japan	136.45	134.55
Mexico	2977.00	2974.60
Netherlands	1.7580	1.7300
South Korea	711.17	710.78
Switzerland	1.3580	1.3350
Taiwan	26.76	26.70
U.K.*	1.8745	1.9005

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/8/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.1%	-2.5%

In recent months, the Fed stepped up its provision of reserves to the banking system, permitted the Federal funds rate to drop decidedly, cautioned bank examiners against overzealousness in pursuit of their tasks, and urged banks to shed any undue reluctance to lend. Since end-October, for example, nonborrowed reserves—the building blocks of the money supply—have risen at a nearly 12 percent annual rate; this compares with no nonborrowed reserves growth during the year ending October 1990. The long-dormant money supply has begun to respond to these measures, with M2 advancing at a better than four percent annual rate since last fall.

Given the end of the war, the drop in interest rates, the firming of several economic statistics, heightened Fed efforts to restart the economy as well as the export-stimulating, undervalued position of the dollar in the foreign exchange markets, it is not too difficult to see the recession ending within the next few months. Having said this, however, the more difficult task may be to maintain the economic recovery that will follow, especially in light of such impediments as hefty consumer and business debt loads, tightened bank regulatory standards, lofty consumer tax burdens—and what will probably be an inflation-wary central bank. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/6/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.639	- .763	+19.970
Loans to Depository Inst.	.483	+ .115	- 1.576
Float	.612	+ .449	+ .158
Total Reserve Bank Credit	286.899	- .942	+18.240
Treasury Deposits with Federal Reserve Banks	9.192	- 4.153	+ 2.999
Currency in Circulation	285.528	+ .993	+29.911
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	254.307	- 1.694	+30.495
Member Bank Reserves:	3/6/91		
Total Reserves Held	59.316	- 1.134	+ .268
Excess (Deficiency)	1.187	- .577	+ .390
Net Free Reserves	.811	- .801	+ .140

		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (2/25/91)	836.2	+ 6.2	+ 4.4
M2 (2/25/91)	3,360.2	+ 3.4	+ 3.2
M3 (2/25/91)	4,166.4	+ 4.5	+ 2.4
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/8/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.06%	6.04%	6.05%
* Federal Agencies	6.15	6.25	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.75	6.75	6.95

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.33%	Apr.	6.65%
15- 29 days	6.00	May	6.53
30- 59 days	6.50	Jun.	6.48
60- 89 days	6.48	Jul.	6.47
90-179 days	6.39	Aug.	6.45
180-239 days	6.30	Sep.	6.41
240-270 days	6.30		

‡ Industrial Paper–Prime			
30- 89 days	6.58%	†Federal Funds Effective Rate	6.00%
90-120 days	6.50		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,521 r	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,150 r	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.0 r	1.4	0.3
Change in Consumer Prices*	Jan '91	4.8%	3.6%	10.8%
Change in MH Cost of Living Index*	Jan '91	9.6%	4.8%	10.8%
Change in Producer Prices*	Jan '91	- 1.2%	- 7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Feb '91 n	116,918	116,922	118,074
Unemployment as % of Civilian Labor Force †	Feb '91 n	6.5%	6.2%	5.3%
Personal Income*	Jan '91 n	$ 4,719	$ 4,741 r	$ 4,532
Leading Indicators Composite Index (1967=100) †	Jan '91 n	139.1	139.7 r	145.4
Industrial Production Index (1977=100) †	Jan '91	106.5	107.0	107.5
Net Change in Consumer Installment Credit †	Jan '91 n	- $ 2.44	- $ 0.34 r	$ 1.21
U.S. Merchandise Trade Balance †	Dec '90	- $ 6.25	- $ 8.91	- $ 6.80
Plant and Equipment Expenditures*	1st Q'91	$ 557.9 (a)	$ 532.8 (a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Jan '91	850	975	1,543
New Construction Expenditures*	Jan '91 n	$ 396.6	$ 407.1 r	$ 446.0
Total Business Inventories †	Dec '90	$ 810.7	$ 816.1	$ 795.1
Total Business Sales †	Dec '90	$ 530.9	$ 543.2	$ 527.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Global

With Customers In Over 100 Countries, We Speak A Universal Language.

The language that moves the world's portfolios. With speed. With ease. With custodial expertise that's not just talk.

It's technology. Our unsurpassed securities workstation — GEOPAC℠ An electronic messenger that delivers all the information you need to manage your investments. Real-time. On-line. Just press the key.

It's presence. A network of subcustodians with the local clout to process your orders smoothly, successfully. A persuasive voice heard all across the globe.

It's commitment. An organization settling a single transaction every other second and over 10,000 every single day. Faster than you can say GEOSERVE.

When you talk — we listen. In your language. Let us hear from you. In New York, call Diane Reyes, Vice President at (212) 270-4694 or in London, John Gibson, Vice President at (01) 932-3609.

GEOSERVE℠
We Get Around

©1990 Manufacturers Hanover Trust Company
All Rights Reserved. Member FDIC. Member of the Securities Association

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024132 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 6

Monday, March 25, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover
Economics Department
17/270

Economic Growth In Europe Slows

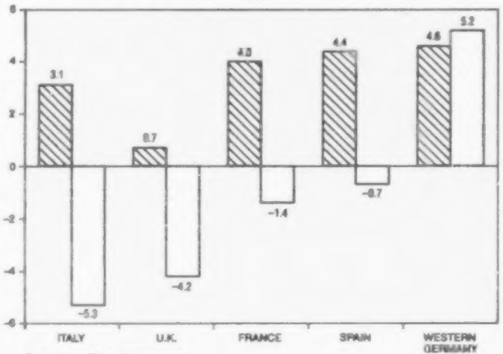
Although the end of the Gulf War has not triggered the same euphoria about economic revival in Europe that it did here in the United States, a feeling of cautious optimism is growing over there that the combination of the end of the war, lower oil prices, declining inflation rates and falling interest rates will set the stage for economic recovery later this year. To be sure, the United Kingdom was already in recession and the economies of such countries as France, Italy and Spain were showing strains from the tough anti-inflation policies imposed by their monetary authorities well before Saddam Hussein invaded Kuwait last August. Still, there can be no doubt that economic activity in most of Europe has slowed considerably since last summer, with industrial output now below year ago levels in many countries (see chart).

Not only did uncertainties about the Gulf War crimp business investment and dampen consumer spending, but the surge in oil prices sent inflation rates, which had been slowing in the first half of last year, spiraling once again. This, in turn, reinforced the governments' commitment to high interest rates, thereby prolonging, if not deepening, the economic slowdown in much of Europe. As a result, economists throughout Europe have significantly lowered their forecasts for this year's economic growth rates from earlier projections.

Mounting evidence that England's industrial sector is in its worst decline since the 1981-82 recession, for example, has prompted widespread expectations that the British economy will contract by around two percent this year, after growing by a meager ½ percent in 1990. In the case of France, a plunge in consumer and business confidence, a sharp slowdown in investment, and shrinking corporate profits caused the government to reduce its 1991 economic growth target from 2¾ percent to 2-2½ percent. However, even this estimate is regarded as too optimistic by most private economists, who see France's economy growing by at most 1½ percent this year.

The Italian government also lowered its forecast of this year's economic growth rate to around 2¼ percent from last September's estimate of 2¾ percent. Private economists are even more pessimistic, projecting that the Italian economy will grow by 1½ percent at best this year, well down from 2½ percent last year and 3¼ percent in 1989. Spain's economy, which was hit especially hard by the Gulf War because of its extreme vulnerability to oil price trends and the importance of tourism, is expected to expand by around 2½ percent this year—barely half its average growth rate over the past four years.

INDUSTRIAL PRODUCTION:
LATEST 12-MONTH PERCENT CHANGE (CLEAR BARS)
VS. ANNUAL PERCENT CHANGE FOR 1989 (SHADED BARS)



Source: The Economist

Recession Is Unlikely

In fact, probably the only European nation that wasn't affected by either high interest rates or the Gulf War is Germany, where economic activity has been far more influenced by the country's reunification. As the other European economies were slowing considerably at the end of last year, hefty demand from the five eastern states caused the western German economy to grow by a real five percent (annualized) in the fourth quarter, its fastest clip since 1976. However, while the German economy is still booming, the government's decision to raise taxes in July to help pay for German unification should slow growth later this year.

For the rest of the Continent, while the end of the war won't produce the robust economic growth rates recorded in the late 1980s, there is a feeling of cautious optimism that, by removing much of the uncertainty that has delayed in-

270 Park Avenue, New York, NY 10017

vestment decisions and dampened consumer spending, the end of the Gulf War will at least prevent the other economies from following the United Kingdom into recession. The stabilization of oil prices at around $20 per barrel should also give a modest boost to economic activity.

Interest Rates Are Coming Down

Far more important to Europe's economic recovery, however, will be the direction of interest rates. The earlier decline in oil prices should allow inflation rates to resume their downward trend, thereby paving the way for an easing of monetary policies. Indeed, the announcement that Spain's year-over-year inflation rate fell below six percent in February for the first time in two years allowed the Bank of Spain to lower its key interest rate by a full percentage point earlier this month. This gave the Bank of France and the Bank of England, who had been constrained by the peseta's strength in the European Monetary System (EMS), room to lower interest rates in their respective countries. What is more, expectations that the U.K. inflation rate will be below five percent by the end of the year, down from a peak of almost eleven percent last October, should allow a substantial cut in U.K. interest rates in the coming months.

The main block to lower Italian interest rates is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	205,992	- 1,805	- 13,380
New York City (3/13/91)	32,868	- 254	- 7,953
Commercial Paper (3/13/91)	567,853	+ 2,227	+ 26,463

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	320,937	+ 174	- 2,313
New York City (3/13/91)	57,610	- 333	- 960

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	1,058,811	- 749	+ 51,997
New York City (3/13/91)	178,073	- 342	- 2,118

Financial Markets

	Friday 3/22/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.04%	+ .09	- 2.09
180-Day Bills†	6.14	+ .07	- 2.10
Longest Bills†	6.33	+ .06	- 1.94
Recent Issues:			
6¾s 2/28/93	7.11	+ .14	
7½s 2/29/96	7.80	+ .08	
7¾s 2/15/01	8.14	+ .05	
7⅞s 2/15/21	8.34	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (3/21/91)	7.13%	+ .07	- .18
Blue List Total ($ Million)	$1,693	+ $ 66	+$ 81
30-Day Visible Supply ($ Million)	$3,903	+ $1,267	+$1,403
Total	$5,596	+ $1,333	+$1,484
Corporates:			
Moody's Aa Composite (3/21/91)	9.23%	+ .07	- .27
30-Day Visible Supply ($ Million)	$ 200	–0–	- $2,194
Stocks:			
Dow-Jones Averages:			
Industrials	2,858.91	- 89.36	+154.63
Transportation	1,072.64	- 26.09	- 98.23
Utilities	213.85	+ 1.39	+ .13
65 Stocks	1,011.64	- 23.47	+ 3.99
N.Y.S.E. Composite Index	201.13	- 2.95	+ 15.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	179,588	- 16,952	+33,755

*34% Taxable equivalent 10.80%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/22/91	Week Ago
Overnight	6.06%	5.94%
1 month	6.31	6.19
3 month	6.31	6.19
6 month	6.44	6.31
1 year	6.88	6.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/22/91)	Currency Per U.S. $	Week Ago
Belgium	33.92	32.70
Canada	1.1578	1.1555
France	5.6060	5.4080
Germany	1.6480	1.5868
Italy	1226.00	1184.80
Japan	137.50	136.20
Mexico	2979.00	2979.80
Netherlands	1.8580	1.7885
South Korea	711.56	711.27
Switzerland	1.4090	1.3740
Taiwan	26.79	26.78
U.K.*	1.7850	1.8469

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (3/22/91) (Adjusted for Inflation)	+0.8%	-1.6%

the country's ballooning budget deficit. But the government is planning to introduce a mini-budget within the next few months, which should bring the 1991 deficit closer to target, thereby allowing the Bank of Italy to ease monetary policy.

Another reason for the optimistic outlook on the interest rate front in Europe is the perception that Bonn's decision to raise taxes in order to help pay for German unification will take some of the pressure off the Bundesbank to tighten monetary policy further. Germany's surging budget deficit was a major reason why the Bundesbank increased interest rates on January 31. Germany's interest rate policy is extremely important because it sets the tone for the other EMS member countries due to the dominant role of the Deutschemark in the exchange rate mechanism. The mark's current weakness is also good news to the other European governments because it gives them more room to maneuver interest rates without fear of downward pressure on their currencies. So while the economies in Europe look pretty gloomy now, prospects are good that the combination of the end of the Gulf War, stable oil prices, and especially, falling interest rates will be able to spark a modest recovery later this year. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/20/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	245.966	- .207	+19.989
Loans to Depository Inst.	.221	+ .073	- 2.007
Float	.300	- .036	- .239
Total Reserve Bank Credit	285.172	+ .092	+16.522
Treasury Deposits with Federal Reserve Banks	4.801	- 1.068	- .200
Currency in Circulation	286.712	- .203	+29.592
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.771	- .354	+30.264
Member Bank Reserves:	**3/20/91**		
Total Reserves Held	60.422	+ .833	+ 1.100
Excess (Deficiency)	1.068	- .146	+ .330
Net Free Reserves	.930	+ .092	+ .376
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (3/11/91)	839.6	+ 7.2	+ 4.2
M2 (3/11/91)	3,373.3	+ 4.7	+ 3.2
M3 (3/11/91)	4,173.0	+ 5.3	+ 2.6
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/22/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.87%	5.87%	5.98%
* Federal Agencies	6.20	6.35	6.60
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.35	6.45	6.90

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.87%	Apr.	6.25%
15- 29 days	6.15	May	6.23
30- 59 days	6.20	Jun.	6.20
60- 89 days	6.20	Jul.	6.18
90-179 days	6.21	Aug.	6.18
180-239 days	6.20	Sep.	6.18
240-270 days	6.20		

‡ Industrial Paper–Prime			
30- 89 days	6.28%	†Federal Funds	
90-120 days	6.25	Effective Rate	5.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,521	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,150	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.0	1.4	0,3
Change in Consumer Prices*	Feb '91 n	2.4%	4.8%	6.0%
Change in MH Cost of Living Index*	Feb '91 n	7.2%	9.6%	12.0%
Change in Producer Prices*	Feb '91 n	- 7.2%	- 1.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Feb '91	116,918	116,922	118,074
Unemployment as % of Civilian Labor Force †	Feb '91	6.5%	6.2%	5.3%
Personal Income*	Jan '91	$ 4,719	$ 4,741	$ 4,532
Leading Indicators Composite Index (1967=100) †	Jan '91	139.1	139.7	145.4
Industrial Production Index (1977=100) †	Feb '91 n	105.7	106.6r	108.5
Net Change in Consumer Installment Credit †	Jan '91	- $ 2.44	- $ 0.34	$ 1.21
U.S. Merchandise Trade Balance †	Jan '91 n	- $ 7.00	- $ 6.28r	- $ 10.20
Plant and Equipment Expenditures*	1st Q'91	$ 557.9 (a)	$ 532.8 (a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Feb '91 n	989	850	1,459
New Construction Expenditures*	Jan '91	$ 396.6	$ 407.1	$ 446.0
Total Business Inventories †	Jan '91 n	$ 814.4	$ 811.0r	$ 797.2
Total Business Sales †	Jan '91 n	$ 523.6	$ 529.9r	$ 529.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Distinctive

Our London-Based Global Custody Services Are Just Your Cup Of Tea.

Off-the-shelf custody designed for the "average" investor or the "normal" transaction benefits no one. If that's how your custodian views your business, you may have a lemon. Who's average? What's normal?

At Manufacturers Hanover, we create a blend of services perfectly matched to the needs of your portfolio. With securities processing centers in London and New York and a network of subcustodians around the world, we're prepared to handle the most routine transaction and the most demanding. When you need multi-currency processing — we've got it. When you need trades settled in Australia . . . . . Germany . . . . . Japan . . . . . we do it. When you need foreign exchange clout — use ours.

Wherever you are — we are. With our full-bodied blend of services. How refreshing! In New York, call Diane Reyes, Vice President at (212) 270-4694 and in London, John Gibson, Vice President at (01) 932-3609. For Global Custody brewed your way.

©1990 Manufacturers Hanover Trust Company.
All Rights Reserved. Member FDIC. Member of the Securities Association.

GEOSERVE℠
Foreign Know-How

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

F91 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 7

Monday, April 8, 1991

Analysis of Business Trends Plus Selected Financial Indicators

The Fed Rests On Its Oars

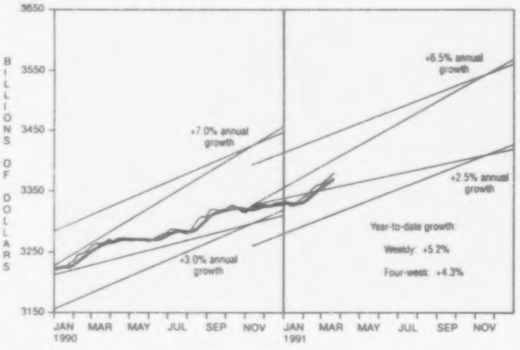
While the skies in the Northern Hemisphere may be brightening at this time of year, one thing that seems to be fading with the onset of spring is the likelihood of additional, aggressive monetary policy ease. For although the economy still remains in recession, and job losses continue to mount, there are enough signs of life in the pace of business (Financial Digest—March 11, 1991) and, more disturbingly, in inflation, to prompt the Federal Reserve to put further monetary loosening initiatives on hold. To be sure, an unanticipated string of unambiguously negative economic statistics, or an unbridled surge in the dollar, might alter today's cautious policy approach. But the odds, at this juncture, favor neither.

The cessation of hostilities in the Persian Gulf and lower interest rates are already serving as an antidote to the spending reticence of both households and businesses which emerged last fall. The dollar, which has appreciated sharply over the past six weeks, appears headed for a breather, if not a retracement of some of its recent gains, as traders and investors warily await potential central bank moves to staunch both the dollar's rise, and the Deutschemark's plunge. In this environment, while the descent of short-term interest rates may not be entirely over, the bottom is approaching. For long-term interest rates, the trough may have been reached weeks ago if progress does not materialize soon in slowing the stubbornly high rate of inflation and the worldwide capital shortage continues.

Manufacturers Hanover Economics Department 17/270

Although the usual degree of uncertainty surrounds the near-term business outlook, central bank inaction tends to suggest that Fed policymakers are in general agreement with the view that this will be a short, shallow downturn, and that the economy is currently in the process of bottoming. Over the past 60 days, for example, the mood of the nation has swung from gloom to near euphoria. According to the Conference Board, consumer confidence recently posted its largest two-month gain in over 15 years. While the nay-sayers point out that this has yet to translate into a vigorous spending rebound, or that mounting job losses will soon reverse this trend, brightening household expectations did contribute to a hefty rise in the Government's index of leading economic indicators in February, and has also spurred a wealth of anecdotal evidence that consumers now seem more inclined to spend. What is more, rebounding confidence and quickened spending do not always move in tandem; a short-lived lag between the two is not uncommon.

MONEY SUPPLY, M2
FOUR-WEEK MOVING AVERAGE (THICK) VS. WEEKLY FIGURES (THIN)



Sources: Federal Reserve Board; MH

Another good sign is that lower interest rates are providing a welcome tonic to the long-suffering housing market. With mortgage rates at four-year lows, housing starts, sales and building permits all registered good-sized gains in February. Some builders, at least, must think a change for the better is in the works: With only one monthly exception, the level of building permits had been in a nonstop decline since January 1990. Admittedly, there are still a number of sizable minuses hovering on the business landscape, ranging from the much-discussed belief that a full-fledged credit crunch is choking the economy, to vanishing corporate profits, to hefty levels of outstanding consumer debt. However, with a larger number of pluses now balancing the pre-existing minuses, the Fed will probably take the opportunity to pause in its pursuit of easier money.

Inflation Quandry

While the economy has yet to emerge from the recession woods, the healthier mix of economic statistics and surveys is lending weight to the arguments of those policymakers who warn that additional easing initiatives run the risk of repeating the mistakes of the past—when too much monetary relief during business down-

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

turns inevitably translated into too much inflation during subsequent upturns. And, perhaps the most compelling reason for slowing the pace of monetary ease is that this recession has hardly put a dent in the rate of inflation.

In recent months, the so-called "core" rates of consumer and producer price inflation, which exclude the swings in food and energy prices, have been seemingly immune to the price dampening influences of rising joblessness and lower industry operating rates. Although special factors always seem to have some contributory role, the disturbing fact is that core consumer price inflation has been quickening for months and, over the past 12 months, has advanced at its fastest clip since late 1982. At that time, however, the trend was benign, as inflation was decelerating from the double-digit pace of 1980-81. Nor does the trend in producer prices offer much solace. For notwithstanding little or no inflation in the pipeline, at the crude and intermediate goods levels, the 12-month change in finished goods prices is accelerating, rising at its quickest clip since last spring.

Money Growth Rebounds

The rebound of both M2 money supply growth and the dollar in the foreign exchange markets

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (3/20/91)	204,167	- 1,379	- 12,630
New York City (3/27/91)	31,281	- 1,301	- 9,169
Commercial Paper (3/27/91)	563,231	- 1,761	+ 21,522

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (3/20/91)	320,216	+ 1,256	- 3,681
New York City (3/27/91)	57,168	- 511	- 380

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (3/20/91)	1,053,259	- 4,349	+ 44,722
New York City (3/27/91)	173,803	- 2,185	- 7,387

Financial Markets

	Friday 4/5/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.87%	+ .01	- 2.15
180-Day Bills†	5.97	- .07	- 2.17
Longest Bills†	6.23	+ .01	- 2.03
Recent Issues:			
7 ⅛s 3/31/93	6.91	NA	
7¾s 3/31/96	7.64	NA	
7¾s 2/15/01	7.98	- .07	
7⅞s 2/15/21	8.17	- .07	
Municipals:			
Bond Buyer—20 Bond Index* (4/4/91)	7.06%	- .08	- .27
Blue List Total ($ Million)	$1,285	- $301	- $285
30-Day Visible Supply ($ Million)	$2,395	- $636	- $563
Total	$3,680	- $937	- $848
Corporates:			
Moody's Aa Composite (4/4/91)	9.14%	- .08	- .42
30-Day Visible Supply ($ Million)	$ 200	- $315	- $159
Stocks:			
Dow-Jones Averages:			
Industrials	2,896.79	- 17.07	+179.67
Transportation	1,115.30	+ 5.81	- 58.78
Utilities	215.11	- 2.07	+ 1.45
65 Stocks	1,031.65	- 3.32	+ 20.61
N.Y.S.E. Composite Index	205.66	+ .36	+ 18.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,776	+ 10,471	+42,406

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/5/91	Week Ago
Overnight	5.94%	6.25%
1 month	6.06	6.19
3 month	6.06	6.25
6 month	6.19	6.44
1 year	6.63	6.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/5/91)	Currency Per U.S. $	Week Ago
Belgium	34.30	34.93
Canada	1.1544	1.1595
France	5.6455	5.7540
Germany	1.6675	1.6980
Italy	1239.30	1259.00
Japan	136.20	140.65
Mexico	2988.20	2985.00
Netherlands	1.8790	1.9140
South Korea	711.66	710.87
Switzerland	1.4210	1.4540
Taiwan	26.94	26.92
U.K.*	1.7875	1.7480

*U.S. $ per U.K. pound

	Change Since	
MH TRADE-WEIGHTED DOLLAR (4/5/91) (Adjusted for Inflation)	Week Ago	2/27/85
	-0.5%	-0.4%

reinforces the likelihood of policy stability. After expanding anemically during much of the past year, and often at a pace below the targets set by the Fed, M2 growth has recently perked up. Responding to past easing efforts, M2 has grown by two percent since its October 1990 low and, as shown in the chart on page 1, is now positioned in the middle of its 1991 target range. While this alone would not warrant a shift to caution by the Fed, it does blunt a major argument for even easier credit conditions.

Finally, the strength of the dollar does not necessitate any policy change. In fact, it has simply retraced some of its large losses versus the European currencies which occurred in the wake of the windfall political changes which swept Eastern Europe in late 1989. In so doing, the relentlessly oversold dollar has moved back to a more realistic valuation level versus the Continental currencies, a development which should not significantly curb exports, but will assist the Fed in its inflation fight. Rather than attempting to deflate the dollar, the Fed should feel more comfortable with where it is, one more factor favoring today's wait-and-see monetary policy stance—waiting to see whether or not the economy has bottomed, while signaling the financial markets that the central bank has not lost its inflation-fighting resolve. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/3/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	248.687	+ 4.604	+21.808
Loans to Depository Inst.	.250	+ .077	- 1.900
Float	1.093	+ .820	+ .557
Total Reserve Bank Credit	286.919	+ 3.189	+17.478
Treasury Deposits with Federal Reserve Banks	8.352	+ 2.221	+ 3.897
Currency in Circulation	286.973	+ .942	+28.888
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	243.467	- .732	+18.967
Member Bank Reserves:	4/3/91		
Total Reserves Held	48.928	+ .301	- 10.312
Excess (Deficiency)	1.417	+ .406	+ .339
Net Free Reserves	1.267	+ .394	+ .381
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (3/25/91)	844.5	+ 7.7	+ 4.5
M2 (3/25/91)	3,385.6	+ 5.7	+ 3.4
M3 (3/25/91)	4,174.6	+ 5.7	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/5/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.71%	5.72%	5.85%
* Federal Agencies	6.10	6.10	6.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.15	6.25	6.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.96%	May	6.05%
15- 29 days	5.90	Jun.	6.02
30- 59 days	5.93	Jul.	6.00
60- 89 days	5.90	Aug.	6.00
90-179 days	5.90	Sep.	6.00
180-239 days	5.90	Oct.	5.99
240-270 days	5.90		

‡ Industrial Paper–Prime			
30- 89 days	6.05%	†Federal Funds	
90-120 days	6.05	Effective Rate	5.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,527r	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,153r	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 1.6r	1.4	0.3
Change in Consumer Prices*	Feb '91	2.4%	4.8%	6.0%
Change in MH Cost of Living Index*	Feb '91	7.2%	9.6%	12.0%
Change in Producer Prices*	Feb '91	- 7.2%	- 1.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Mar '91n	116,754	116,918	118,235
Unemployment as % of Civilian Labor Force †	Mar '91n	6.8%	6.5%	5.3%
Personal Income*	Feb '91n	$ 4,736	$ 4,724r	$ 4,562
Leading Indicators Composite Index (1967=100) †	Feb '91n	140.5	139.0r	144.1
Industrial Production Index (1977=100) †	Feb '91	105.7	106.6	108.5
Net Change in Consumer Installment Credit †	Feb '91n	- $ 2.30	- $ 2.26r	$ 0.04
U.S. Merchandise Trade Balance †	Jan '91	- $ 7.00	- $ 6.28	- $ 10.20
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Feb '91	989	850	1,459
New Construction Expenditures*	Feb '91n	$ 395.1	$ 395.4r	$ 455.6
Total Business Inventories †	Jan '91	$ 814.4	$ 811.0	$ 797.2
Total Business Sales †	Jan '91	$ 523.6	$ 529.9	$ 529.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Only New York has 52 Tie Manufacturers,
279 Health Clubs,
987 Ad Agencies,
and 1,668 Dry Cleaners.

And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (PC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand-in-hand with every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC © 1991 Manufacturers Hanover

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024132 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 8
Monday, April 22, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover
Economics Department
17/270

The Deutschemark Falls From Favor

The economic policies of Germany in the early 1990s are quite similar to those of the United States in the early 1980s: High interest rates resulting from a tight monetary policy and an extremely expansionary fiscal policy. This combination, along with robust economic growth in western Germany, was supposed to do for the Deutschemark what it did for the dollar a decade ago, namely, make it the most sought after currency in the world.

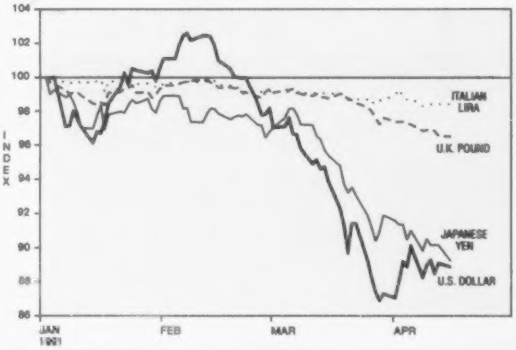
For a while, this seemed to be happening. Not long ago, the Deutschemark had strengthened so vigorously against the other European currencies that many foreign exchange traders were expecting a revaluation of the mark within the European Monetary System (EMS) by early this year. Against the dollar, the Deutschemark surged to a record high of around 1.45 marks per dollar in mid-February, prompting many currency analysts to forecast a mark per dollar exchange rate of 1.35 by June. Then, suddenly, the Deutschemark reversed direction, plunging by almost 14 percent against the U.S. currency in barely two months.

What went wrong? Although the euphoria over the end of the Gulf War was the spark that triggered the rebound of the dollar, it can't fully explain the fall from favor of the Deutschemark. Since mid-February, the mark has also plummeted by a hefty ten percent against the Japanese yen. Even more significant has been the considerable weakening of the mark against most of the other EMS currencies over the past two months. Since mid-February, for example, the Deutschemark has fallen by almost two percent against the Italian lira and by nearly four percent against the U.K. pound, while slipping to the lower half of its permitted trading ranges against most of the EMS currencies (see chart). And this weakening occurred over a period in which the central banks in such EMS member countries as the United Kingdom, Spain, France, Denmark, Belgium and Ireland lowered their interest rates.

Economic Crisis In Eastern Germany

While there are many reasons for the Deutschemark's sudden fall from favor, probably the most significant factor weighing on the currency is the severe economic and social crisis taking place in what was once East Germany.

DEUTSCHEMARK VS. SELECTED CURRENCIES
(JANUARY 2, 1991=100)



Source: MH

Although the economic transformation of the east was billed as "Germany's second economic miracle", the introduction of free market principles is turning out to be a much greater challenge than was the case in western Germany after the end of World War II. Four decades of socialist command have left the eastern states poorly prepared for the sudden shock of free market competition.

What's more, although the generous terms of monetary union were considered necessary to stem the mass exodus of East Germans to the west last July, they increased wage costs in eastern Germany to uncompetitive levels. To make matters worse, the freedom of workers to migrate west has placed further upward pressure on wages in the east. Since monetary union last July, wages have risen by an estimated 50 to 80 percent in many industries in the east. Indeed, recent pay settlements suggest that wages could rise to two-thirds of those in western Germany by the end of the year.

At the same time that wages are soaring, productivity in the east is plunging. Reflecting a strong aversion to their own products and a lack of "hard currency" by the Soviet Union and Eastern Europe, East Germany's traditional export markets, industrial production has fallen by over 60 percent during the past nine months. The jump in wages and drop in produc-

270 Park Avenue, New York, NY 10017

tion, in turn, have led to a surge in bankruptcies and unemployment. Around one-third of the labor force in the east is currently without a full time job and that ratio is expected to reach one-in-two by next year.

The collapse of the eastern German economy has, in turn, led to mass demonstrations, public feuding between the Bundesbank and the German Finance Ministry over who is to blame for the eastern German "disaster", calls for Chancellor Kohl's resignation only four months after his landslide victory and the tragic murder earlier this month of Detlev Rohwedder, the chief of the Treuhand privatization agency, viewed as the scapegoat for eastern Germany's economic collapse.

Western Germany Has Problems, Too

As if the problems in the east weren't enough to place downward pressure on the Deutschemark, western Germany's economic prospects are also starting to dim. For one thing, if current trends continue, the once hefty German current account surplus could slip into the red this year. Reflecting a surge in import demand from the east and an economic slowdown in western Germany's major export markets, Germany posted a current account deficit of almost four billion marks during the first two

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/3/91)	200,901	- 680	- 15,966
New York City (4/10/91)	32,375	+ 216	- 7,213
Commercial Paper (4/10/91)	557,333	- 2,614	+ 17,008

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/3/91)	320,682	+ 1,081	- 3,413
New York City (4/10/91)	56,502	- 1,007	- 1,398

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/3/91)	1,047,915	- 564	+ 43,788
New York City (4/10/91)	173,808	- 361	- 5,599

Financial Markets

	Friday 4/19/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.91%	+ .26	- 2.03
180-Day Bills†	6.00	+ .16	- 2.23
Longest Bills†	6.27	+ .17	- 2.14
Recent Issues:			
7 ⅛s 3/31/93	7.00	+ .15	
7¾s 3/31/96	7.76	+ .12	
7¾s 2/15/01	8.18	+ .19	
7⅞s 2/15/21	8.21	+ .03	
Municipals:			
Bond Buyer—20 Bond Index* (4/18/91)	6.98%	- .04	- .41
Blue List Total ($ Million)	$1,215	- $ 73	- $ 325
30-Day Visible Supply ($ Million)	$2,599	+ $547	+$1,049
Total	$3,814	+ $474	+$ 724
Corporates:			
Moody's Aa Composite (4/18/91)	9.10%	- .03	+ 1.43
30-Day Visible Supply ($ Million)	$ 260	- $140	- $ 115
Stocks:			
Dow-Jones Averages:			
Industrials	2,965.59	+ 44.80	+270.76
Transportation	1,171.55	+ 42.67	+ 16.67
Utilities	212.84	- 5.34	+ 4.72
65 Stocks	1,058.29	+ 15.92	+ 60.76
N.Y.S.E. Composite Index	210.23	+ 2.15	+ 26.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	207,682	+ 33,352	+62,296

*34% Taxable equivalent 10.58%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/19/91	Week Ago
Overnight	5.94%	5.50%
1 month	6.06	5.88
3 month	6.13	5.94
6 month	6.31	6.13
1 year	6.75	6.59

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/19/91)	Currency Per U.S. $	Week Ago
Belgium	35.41	34.35
Canada	1.1548	1.1505
France	5.8095	5.6435
Germany	1.7220	1.6708
Italy	1271.00	1236.00
Japan	137.60	135.70
Mexico	2993.80	2991.00
Netherlands	1.9395	1.8825
South Korea	711.17	712.06
Switzerland	1.4625	1.4300
Taiwan	26.92	26.78
U.K.*	1.7393	1.7940

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (4/19/91) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+1.3%	+1.1%

months of this year compared with a surplus of nearly 19 billion marks a year earlier. For another, Chancellor Kohl's reversal of his no-tax pledge means higher inflation (some taxes will be included in the Cost of Living Index) and slower growth in western Germany later this year and in 1992.

External factors are also weighing on the Deutschemark. Political unrest in the Soviet Union has made investors nervous because of the geographic proximity and economic ties between the two countries. For example, 11 billion marks out of the Soviet Union's total 43 billion mark foreign debt is owed to German banks.

While the Deutschemark should maintain a downward bias in the coming months, its path will probably not be smooth. In fact, disappointing data regarding the expected U.S. economic recovery have already led to a modest appreciation of the mark versus the dollar in recent days. Market fears that the Bundesbank may raise interest rates to support its sinking currency could also give the Deutschemark a boost from time to time. Even if the Bundesbank does raise interest rates, any mark recovery will probably be only temporary, however, given the extent of the economic, social and political problems surrounding the currency. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/17/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.051	- 1.820	+14.906
Loans to Depository Inst.	.272	+ .098	- 1.479
Float	.845	- .043	- .724
Total Reserve Bank Credit	284.882	- 1.634	+ 9.313
Treasury Deposits with Federal Reserve Banks	3.780	- 1.015	- 1.201
Currency in Circulation	288.300	+ .103	+27.358
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	242.837	+ 3.321	+19.372
Member Bank Reserves:	4/17/91		
Total Reserves Held	51.123	+ 2.196	- 10.770
Excess (Deficiency)	.907	- .448	+ .242
Net Free Reserves	.760	- .445	+ .301

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (4/8/91)	841.4	+ 8.7	+ 4.8
M2 (4/8/91)	3,388.0	+ 6.4	+ 3.5
M3 (4/8/91)	4,173.0	+ 5.5	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/19/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.80%	5.78%	5.96%
* Federal Agencies	6.20	6.35	6.60
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.66	6.97
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.09	6.25	6.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.95%	May	6.00%
15- 29 days	6.00	Jun.	6.00
30- 59 days	6.00	Jul.	6.00
60- 89 days	5.93	Aug.	6.00
90-179 days	6.00	Sep.	6.00
180-239 days	6.00	Oct.	6.00
240-270 days	6.00		

‡ Industrial Paper–Prime			
30- 89 days	6.00%	†Federal Funds	
90-120 days	6.00	Effective Rate	5.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

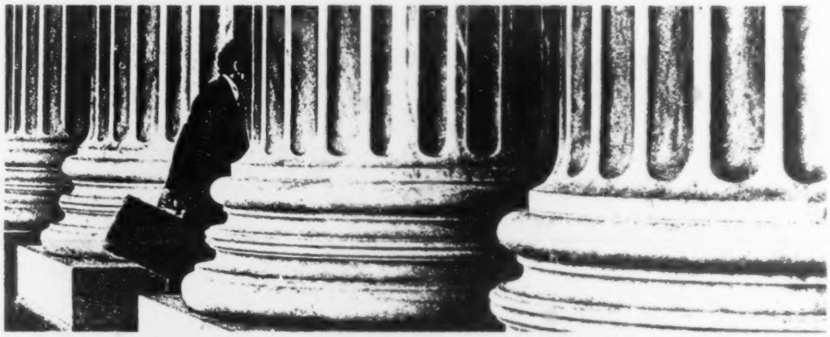
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,527	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,153	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 1.6	1.4	0.3
Change in Consumer Prices*	Mar '91 n	- 1.2%	2.4%	4.8%
Change in MH Cost of Living Index*	Mar '91 n	2.4%	7.2%	6.0%
Change in Producer Prices*	Mar '91 n	- 3.6%	- 7.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Mar '91	116,754	116,918	118,235
Unemployment as % of Civilian Labor Force †	Mar '91	6.8%	6.5%	5.3%
Personal Income*	Feb '91	$ 4,736	$ 4,724	$ 4,562
Leading Indicators Composite Index (1967=100) †	Feb '91	140.5	139.0	144.1
Industrial Production Index (1977=100) †	Mar '91 n	105.3	105.7	108.9
Net Change in Consumer Installment Credit †	Feb '91	- $ 2.30	- $ 2.26	$ 0.04
U.S. Merchandise Trade Balance †	Feb '91 n	- $ 5.33	- $ 7.16r	- $ 7.10
Plant and Equipment Expenditures*	2nd Q'91 n	$ 547.9 (a)	$ 540.8 (a) r	$ 535.5
Private Housing Starts (Thousands of Units)*	Mar '91 n	901	993r	1,298
New Construction Expenditures*	Feb '91	$ 395.1	$ 395.4	$ 455.6
Total Business Inventories †	Feb '91 n	$ 829.8	$ 831.4r	$ 810.0r
Total Business Sales †	Feb '91 n	$ 529.6	$ 527.1r	$ 536.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

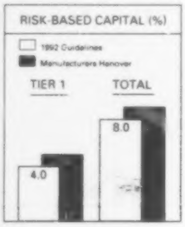
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



© 1991 Manufacturers Hanover Trust Company

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

**Financial
Digest**

B5350-2

MANUFACTURERS
HANOVER

Financial Digest

Volume XXVIII, Number 9

Monday, May 6, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Auto Sales Downshift

Postwar euphoria has turned to postwar gloom for the U.S. auto industry in the wake of persistently soft car sales reports since the end of the Gulf War. Those who had pinned their hopes for an early end to this recession on the traditional stimulus—a recovery in consumer spending, particularly on big-ticket items—have seen those hopes deferred yet again by the April sales numbers.

While there are signs of consumer life in certain segments of the housing market, these seem based upon bargain prices unique to that industry. Anecdotal upbeat evidence for the auto industry, on the other hand, whether a recovery in consumer confidence, or reports of a pick-up in showroom traffic, has yet to translate into an improvement in auto sales by any measure due to declining real personal incomes, a low level of savings and tightened credit standards by many dealers.

Sales of U.S.-produced passenger cars for the second 10 days of April ran at a seasonally adjusted annual pace of just 5.6 million units, off from the same period a year ago by 12½ percent. The picture does not improve significantly using more complete retail sales data for domestic and imported light vehicles—passenger cars and light trucks which substitute for passenger cars. On this basis, sales were off by an estimated 11.3 percent compared with the same period a year ago and for the year to date by 18 percent. While, at first glance, these declines may appear modest compared with the severe contractions of 1974 or 1980, it should be noted that 1990's light vehicle sales were already off their 1986 peak by nearly 16 percent. What is more, consumer demand may be even weaker than these dismal results indicate, as the data from some of the companies include an estimated 30-40 percent of sales to fleets, rather than to individual buyers.

While the market share of the Japanese manufacturers has continued to increase, no group of manufacturers has escaped the sales decline. Honda is once again offering incentives on the Accord, the best-selling car in the United States, and even production of the venerable Rolls Royce has been cut by 18 percent. This near-term drop in sales has only exacerbated the long-term problem of excess capacity in the industry worldwide, caused by the decline of the U.S. dollar which has trimmed demand for some expensive imports, and by increased production by the Japanese manufacturers. The simultaneous financial drain of heavy capital spending, excess capacity, financial incentives, and, for some, a higher proportion of low-margin fleet sales, is wreaking havoc on industry profitability.

Consolidation In Progress

The substantial earnings plunge in the U.S. market sustained by the traditional American manufacturers has been well publicized. Perhaps less well known is the fact that many of the foreign manufacturers are also losing money on their U.S. operations. Indeed, one leading industry participant has stated publicly that no auto manufacturer is making money in the U.S. market.

As a result, a consolidation is underway, including the permanent closure of some U.S. and European assembly plants, along with several takeovers of smaller European and Japanese firms by larger companies with deeper pockets. However, the adjustment is proceeding only slowly. Substantial "exit barriers" to the market have retarded industry consolidation globally, whether in the form of payments to severed workers for the traditional U.S. manufacturers, or the implied no lay-off commitment of the Japanese firms, or hefty charges to earnings for shuttered plants.

The manufacturers operating in the United States seem to share this believe-it-when-we-see-it attitude toward a recovery in auto sales. First quarter production was slashed, and the second quarter assembly schedule, at five million passenger cars, is under even current low levels of demand. As a result, although individual manufacturers may have a problem, industry inventories of finished vehicles are so low that even a modest, but sustained, pick-up in demand from current levels could translate quickly into higher production.

Manufacturers
Hanover
Economics
Department
17/270

270 Park Avenue, New York, NY 10017

A Tepid Recovery?

Nonetheless, the timing and strength of such a recovery is problematic. While the industry had hoped for a recovery beginning in the second half of this year, recent comments on the possibility of permanently shuttering more plants and even re-opening the contract with the United Automobile Workers may indicate that recovery—for autos, at least—is now perceived to be further away.

Even if higher incomes and easier credit terms boost sales, a robust recovery from the 1991 trough in subsequent years is not assured. Virtually all optimistic forecasts hinge upon the traditional assumption of the existence of "pent-up demand", or the desire by the consumer to replace old vehicles, but postponed until the arrival of better economic times. It is not clear that such demand will provide the usual stimulus this time around.

While a staggering total of 62 million light vehicles were purchased in this country during the prolonged expansion from 1984 to 1988, and these vehicles, under traditional circumstances would now be prime candidates for replacement, one major obstacle to sharply higher sales is the eroding ability of the average family

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	200,571	- 753	- 13,445
New York City (4/24/91)	32,105	- 612	- 7,325
Commercial Paper (4/24/91)	552,456	- 5,244	+ 6,703

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	319,163	+ 1,464	- 7,924
New York City (4/24/91)	56,902	- 523	- 1,570

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	1,052,847	+ 4,639	+ 40,384
New York City (4/24/91)	173,875	- 3,785	- 7,034

Financial Markets

	Friday 5/3/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.61%	- .16	- 2.39
180-Day Bills†	5.79	- .17	- 2.43
Longest Bills†	6.07	- .10	- 2.31
Recent Issues:			
7 s 4/30/93	6.79	- .09	
7⅝s 4/30/96	7.64	- .03	
7¾s 2/15/01	8.03	- .02	
7⅞s 2/15/21	8.22	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (5/2/91)	6.95%	- .06	- .59
Blue List Total ($ Million)	$1,030	- $170	- $164
30-Day Visible Supply ($ Million)	$2,532	+ $265	- $515
Total	$3,562	+ $ 95	- $679
Corporates:			
Moody's Aa Composite (5/2/91)	9.05%	- .06	- .79
30-Day Visible Supply ($ Million)	$ 400	+ $190	+ $180
Stocks:			
Dow-Jones Averages:			
Industrials	2,938.86	+ 26.48	+228.50
Transportation	1,171.02	+ 4.94	+ 25.93
Utilities	211.46	+ 1.64	+ 3.08
65 Stocks	1,052.09	+ 7.60	+ 53.74
N.Y.S.E. Composite Index	208.40	+ 1.13	+ 23.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,603	+ 12,635	+36,615

*34% Taxable equivalent 10.53%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/3/91	Week Ago
Overnight	5.75%	5.88%
1 month	5.81	6.00
3 month	5.88	6.06
6 month	6.00	6.25
1 year	6.44	6.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/3/91)	Currency Per U.S. $	Week Ago
Belgium	35.28	36.09
Canada	1.1502	1.1519
France	5.8035	5.9200
Germany	1.7130	1.7549
Italy	1270.00	1296.00
Japan	137.85	138.30
Mexico	3008.60	2996.60
Netherlands	1.9300	1.9768
South Korea	709.99	711.07
Switzerland	1.4475	1.4740
Taiwan	26.85	26.87
U.K.*	1.7268	1.8550

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (5/3/91) (Adjusted for Inflation)	+1.0%	+7.9%

to afford a new car. Another is the impact of the continuous release into the market of large numbers of "retired" fleet vehicles. These nearly new vehicles have been repurchased from the rental car companies by the auto manufacturers, and are then made available to the public through the auction system and the established dealer network. The result is the wide availability of large numbers of current model cars at heavy discount from the price of the new version.

While full figures are unavailable, partial evidence indicates these vehicles may be affecting new car sales. A 1990 study conducted by a major automobile consulting firm found, for example, that 58 percent of buyers of fleet vehicles had also shopped for new vehicles. So, too, the rise in the ratio of used car expenditures to new car expenditures from 28 percent in 1978 to over 40 percent in recent years suggests that at least some new vehicle buyers may be opting for used vehicles. If so, these signs point in the direction of only limited pent-up demand, and therefore toward a modest, rather than strong recovery in retail light vehicle sales. While any rebound would certainly be a welcome improvement, a tepid upturn may well trigger further industry consolidation, not to mention additional job losses. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/1/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.758	+ 1.005	+17.316
Loans to Depository Inst.	.273	+ .060	- .717
Float	1.044	+ .551	+ .638
Total Reserve Bank Credit	286.090	+ 1.832	+13.628
Treasury Deposits with Federal Reserve Banks	5.746	+ .237	+ 1.203
Currency in Circulation	286.407	- .788	+26.451
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	241.477	+ 1.283	+18.087
Member Bank Reserves:	5/1/91		
Total Reserves Held	49.900	- 1.115	- 10.762
Excess (Deficiency)	1.210	+ .410	+ .105
Net Free Reserves	1.069	+ .417	+ .220
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (4/22/91)	841.5	+ 9.6	+ 4.6
M2 (4/22/91)	3,386.6	+ 6.9	+ 3.5
M3 (4/22/91)	4,178.9	+ 5.7	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/3/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.49%	5.60%	5.76%
* Federal Agencies	6.00	6.05	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.91	6.03	6.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.78%	Jun.	5.77%
15- 29 days	5.78	Jul.	5.77
30- 59 days	5.73	Aug.	5.77
60- 89 days	5.77	Sep.	5.77
90-179 days	5.77	Oct.	5.78
180-239 days	5.77	Nov.	5.77
240-270 days	5.77		

‡ Industrial Paper–Prime			
30- 89 days	5.84%	†Federal Funds	
90-120 days	5.85	Effective Rate	5.50%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

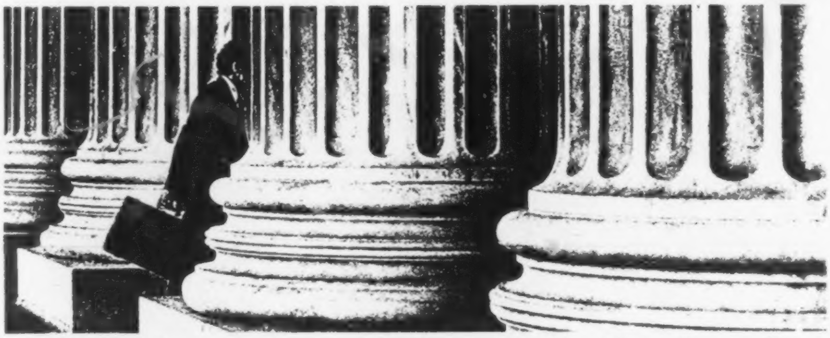
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91 n	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91 n	$ 4,124	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91 n	- 2.8	- 1.6	1.7
Change in Consumer Prices*	Mar '91	- 1.2%	2.4%	4.8%
Change in MH Cost of Living Index*	Mar '91	2.4%	7.2%	6.0%
Change in Producer Prices*	Mar '91	- 3.6%	- 7.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Apr '91 n	117,398	116,754	118,090
Unemployment as % of Civilian Labor Force †	Apr '91 n	6.6%	6.8%	5.4%
Personal Income*	Mar '91 n	$ 4,746	$ 4,734r	$ 4,595
Leading Indicators Composite Index (1967=100) †	Mar '91 n	141.1	140.4r	145.4
Industrial Production Index (1977=100) †	Mar '91	105.3	105.7	108.9
Net Change in Consumer Installment Credit †	Feb '91	- $ 2.30	- $ 2.26	$ 0.04
U.S. Merchandise Trade Balance †	Feb '91	- $ 5.33	- $ 7.16	- $ 7.10
Plant and Equipment Expenditures*	2nd Q'91	$ 547.9(a)	$ 540.8(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Mar '91	901	993	1,298
New Construction Expenditures*	Mar '91 n	$ 391.4	$ 397.4r	$ 457.3
Total Business Inventories †	Feb '91	$ 829.8	$ 831.4	$ 810.0
Total Business Sales †	Feb '91	$ 529.6	$ 527.1	$ 536.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

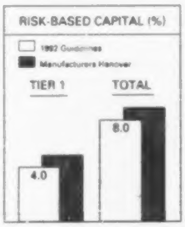
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



© 1991 Manufacturers Hanover Trust Company

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350.2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 10

Monday, May 20, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

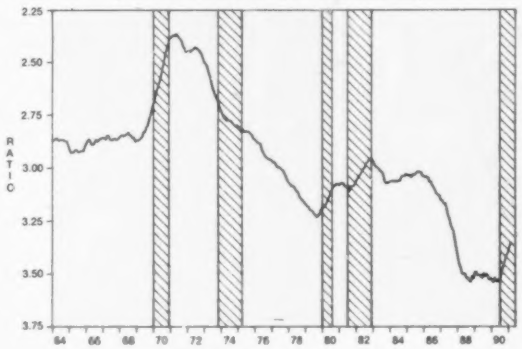
Housing On The Rise

Although the onset of spring usually brings out a sizable degree of optimism among builders and realtors, they might be forgiven this time around if such confidence is harder to muster than usual. For the past two years, hopes of a springtime housing revival have foundered on the shoals of lofty mortgage interest rates and slumping residential property prices, a pernicious combination which sent potential buyers to the sidelines and flattened home sales and housing starts. But while the mood may remain grim, there appears to be a distant flickering of light at the end of the tunnel, notwithstanding today's recession and heightened caution surrounding real estate-related lending. Indeed, just as lofty interest rates helped to trigger the recession, the business downturn has driven them lower. Lower rates, working in tandem with soft real estate prices throughout large chunks of the country, have enhanced housing affordability and set the stage for a modest, if unspectacular, residential real estate rebound.

Perhaps the most visible sign of the bottoming of the prolonged housing slide is the bounce-back in sales of both new and existing homes. Take, for example, the new home market. According to the Commerce Department, new single-family home sales rose in March for the second straight month, running at a seasonally adjusted 490,000 unit annual rate. Although this was still some 6½ percent below the March 1990 sales pace, it was a distinct improvement compared with the abysmal January 1991 sales low of just 409,000 units.

Nor were new homes the only ones selling again. In what could be the first major break in the gridlock which has plagued the resale and trade-up markets since early 1989, existing single-family homes have begun moving as well. They sold at a 3.18 million unit annualized pace in March, nearly ten percent better than the January low of 2.9 million units. And, in what could be just as big a psychological lift to the market as the pickup in sales itself, those homes that do sell are doing so more quickly. The sales wait now averages five months nationwide, down from 5.6 months in January. In response, progress is finally being made in chipping away at the inventory of unsold homes. The ratio of homes for sale-to-homes sold has dropped from a high of 9.4 at the turn of the year to 7.5 now.

RATIO OF NEW 1-FAMILY HOME PRICES
TO MEDIAN FAMILY INCOMES
(12-MONTH AVERAGES, INVERTED SCALE)



Source: Commerce Department; MH

Affordability Improves

In today's market, the often-stated adage that "location, location, location" is the principal determinant of real estate desirability has an equally-important corollary—namely, "affordability, affordability, affordability." Here, too, the outlook is brightening. After years of rapidly escalating home prices and double-digit mortgage interest rates, the combination of soft prices in many regions, and a sharp slide in interest rates, has put the purchase of a home within the reach of many more potential buyers. Whereas the median sales price of existing homes sold nationwide climbed by almost 37 percent between 1984 and mid-1990, rising from $72,400 to a peak of $98,900, this advance has since come to an abrupt halt. In fact, prices have slightly reversed direction, with the median sales price dropping back to $96,500 by March of this year.

Nowhere is this trend more pronounced than in the once-hot, but now recession-plagued Northeast. After nearly doubling during the five years ending in 1989, sales prices declined throughout much of 1990 and currently stand four percent below their $148,000 peak. The ascent of new home prices, too, has been tempered. They are

270 Park Avenue, New York, NY 10017

no higher today than at the beginning of last year.

By enabling household incomes to catch up a bit, the softness in housing prices is providing a welcome breather from the relentless erosion of housing affordability which occurred throughout much of the 1980s. As shown in the chart, the median new home now costs about 3.3 times the median family's income, down from a peak of more than 3.5 times in early 1990, and better than the 3.4 times in early 1988. Nor does this calculation take into account the slide in mortgage interest rates which has been underway over the past year; these rates now stand at a four-year low. At existing new home prices and income levels, each one percentage point drop in mortgage interest rates increases the share of domestic households which can afford a new home by about five points.

Downstream Benefits

It would be premature to paint too rosy a housing picture. Although the upturn in home sales has undoubtedly bolstered builder sentiment and led to a modest pickup in new-home construction, the level of housing starts, both single- and multi-family, remains only 12 percent

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	198,229	- 910	- 16,091
New York City (5/8/91)	32,528	+ 459	- 6,979
Commercial Paper (5/8/91)	551,666	- 1,802	- 4,852

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	318,344	+ 1,493	- 8,539
New York City (5/8/91)	56,614	- 895	- 2,348

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/91)	1,059,311	+11,837	+ 43,986
New York City (5/8/91)	173,775	- 7,942	- 7,824

Financial Markets

	Friday 5/17/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.54%	- .03	- 2.44
180-Day Bills†	5.79	- .06	- 2.35
Longest Bills†	6.12	+ .05	- 2.18
Recent Issues:			
7 s 4/30/93	6.81	- .03	
7⅜s 4/30/96	7.74	- .01	
8s 5/15/01	8.08	- .03	
8⅛s 5/15/21	8.28	- .05	
Municipals:			
Bond Buyer—20 Bond Index* (5/16/91)	6.94%	+ .01	- .35
Blue List Total ($ Million)	$1,269	+ $230	+$ 305
30-Day Visible Supply ($ Million)	$3,477	+ $129	+$1,000
Total	$4,746	+ $359	+$1,305
Corporates:			
Moody's Aa Composite (5/16/91)	9.18%	+ .07	- .48
30-Day Visible Supply ($ Million)	$ 400	- $400	- $ 150
Stocks:			
Dow-Jones Averages:			
Industrials	2,886.63	- 84.52	+ 66.72
Transportation	1,143.51	- 59.06	- 33.77
Utilities	210.96	- 3.14	- 3.83
65 Stocks	1,034.79	- 34.37	+ 1.54
N.Y.S.E. Composite Index	204.15	- 5.33	+ 10.63
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,940	+ 13,574	+ 1,289

*34% Taxable equivalent 10.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/17/91	Week Ago
Overnight	5.81%	5.69%
1 month	5.88	5.81
3 month	5.94	5.94
6 month	6.13	6.06
1 year	6.50	6.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/17/91)	Currency Per U.S. $	Week Ago
Belgium	35.16	35.51
Canada	1.1505	1.1518
France	5.7975	5.8440
Germany	1.7080	1.7265
Italy	1272.00	1278.70
Japan	137.80	138.85
Mexico	3005.00	3002.20
Netherlands	1.9230	1.9460
South Korea	713.04	712.35
Switzerland	1.4480	1.4640
Taiwan	27.01	27.02
U.K.*	1.7365	1.7195

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/17/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-8.2%

above their January lows. What is more, the giant California housing market—which had accounted for almost one-fifth of all domestic starts as recently as mid-1989—continues to seek bottom. By the fourth quarter of 1990, housing starts in California were running more than 50 percent below year-earlier levels. But, even a modest housing rebound can pay big dividends for the economy in terms of follow-up spending for such items as furniture, carpeting and appliances.

There are some tentative signs that this is already occurring, contributing recently to the stronger tone of retail sales and staunching the slide of industrial production. Consumer spending on furniture, for example, has increased by almost six percent over the past three months; during the final quarter of 1990, by contrast, such outlays fell 4.4 percent. So, too, sales of household appliances, televisions and radios have increased for three straight months, an abrupt U-turn compared with declines in four of the final six months of last year. Not surprisingly, output of furniture and appliances is beginning to rebound—modestly, to be sure, but the type of small seeds from which economic recoveries eventually bloom. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/15/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	249.813	+ 2.634	+17.500
Loans to Depository Inst.	.321	+ .014	- .761
Float	.314	- .326	- .322
Total Reserve Bank Credit	287.194	+ 2.318	+13.054
Treasury Deposits with Federal Reserve Banks	4.931	- .291	- .106
Currency in Circulation	288.660	+ .917	+26.442
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	245.279	+ 3.225	+21.642
Member Bank Reserves:	**5/15/91**		
Total Reserves Held	49.462	- .422	- 9.680
Excess (Deficiency)	.945	- .299	+ .018
Net Free Reserves	.759	- .344	+ .135
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (5/6/91)	849.6	+ 7.6	+ 4.5
M2 (5/6/91)	3,392.6	+ 6.1	+ 3.5
M3 (5/6/91)	4,173.0	+ 4.1	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/17/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.40%	5.60%	5.81%
* Federal Agencies	6.00	6.05	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	6.97
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.95	6.10	6.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.75%	Jun.	5.82%
15- 29 days	5.75	Jul.	5.78
30- 59 days	5.71	Aug.	5.78
60- 89 days	5.83	Sep.	5.82
90-179 days	5.88	Oct.	5.82
180-239 days	5.82	Nov.	5.82
240-270 days	6.00		

‡ Industrial Paper–Prime			
30- 89 days	5.81%	†Federal Funds Effective Rate	5.63%
90-120 days	5.85		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

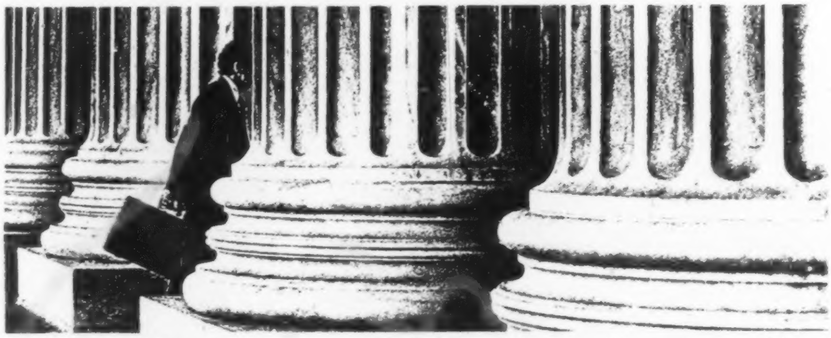
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,124	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.8	- 1.6	1.7
Change in Consumer Prices*	Apr '91 n	2.4%	- 1.2%	2.4%
Change in MH Cost of Living Index*	Apr '91 n	7.2%	2.4%	2.4%
Change in Producer Prices*	Apr '91 n	2.4%	- 3.6%	- 1.2%
Civilian Employment (Thousands of Persons) †	Apr '91	117,398	116,754	118,090
Unemployment as % of Civilian Labor Force †	Apr '91	6.6%	6.8%	5.4%
Personal Income*	Mar '91	$ 4,746	$ 4,734	$ 4,595
Leading Indicators Composite Index (1967=100) †	Mar '91	141.1	140.4	145.4
Industrial Production Index (1977=100) †	Apr '91 n	105.1	105.0r	108.8
Net Change in Consumer Installment Credit †	Mar '91 n	- $ 0.93	- $ 0.20r	$ 1.16r
U.S. Merchandise Trade Balance †	Mar '91 n	- $ 4.05	- $ 5.50r	- $ 8.37
Plant and Equipment Expenditures*	2nd Q'91	$ 547.9(a)	$ 540.8(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Apr '91 n	957	901	1,217
New Construction Expenditures*	Mar '91	$ 391.4	$ 397.4	$ 457.3
Total Business Inventories †	Mar '91 n	$ 821.6	$ 828.2r	$ 810.8r
Total Business Sales †	Mar '91 n	$ 522.6	$ 527.9r	$ 539.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

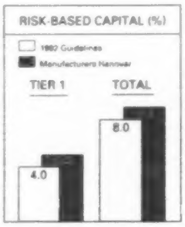
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



© 1991 Manufacturers Hanover Trust Company

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 11

Monday, June 3, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Japan Targets Europe

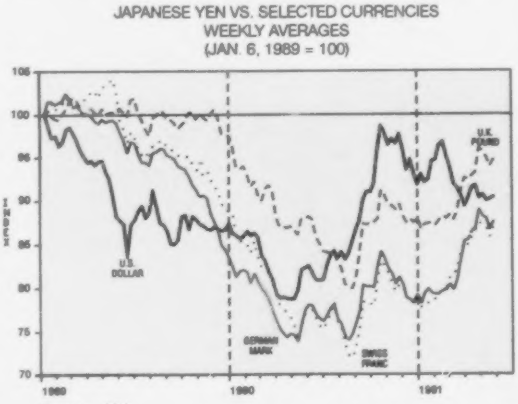
While Japan's huge trade surplus with the United States still provokes strong protests from Washington, recent figures indicate that there has been a dramatic shift in the country's trade flows this year. After declining by some 45 percent between 1987 and 1990, Japan's global trade surplus is on the rise again. Reflecting a 27 percent surge in exports—or three times the rate of import growth—Japan's trade surplus jumped by a hefty 34 percent to $21.1 billion during the first four months of this year from $15.8 billion a year ago. Only this time it is European producers that are bearing the brunt.

To be sure, the United States still accounts for the largest share of Japan's total surplus. However, the U.S. portion dropped to 54 percent during the first four months of this year from 72 percent a year ago. What's more, while Japan's trade surplus with the United States declined slightly, its surplus with the European Community (EC) surged by a whopping 63 percent. In fact, Japan's April trade surplus with the EC was larger than that with the United States for the first time in more than eight years.

The EC will continue to be the focus of Japan's changing trade policies. For one thing, responding to criticism from Washington, Japanese exporters are redirecting their energies toward Europe. For another, the turmoil in Tokyo's financial markets has dampened consumer demand for such luxury items as German cars, French wines and paintings and Italian clothing and jewelry, which were a major force behind the growth in Japanese imports during the late 1980s. As a result, although Japan's surplus with the United States will probably shrink this year from last year's $38 billion figure, the surplus with the European community could surge to $30 billion in 1991 from $21 billion in 1990.

The Yen's Mixed Performance

This shift in trade flows is probably the major reason for the yen's diverging trends this year, but there are others. Undermined by hefty capital outflows, frequent conflicts between the Bank of Japan and the Ministry of Finance concerning interest rate policy, and Japan's financial market volatility, the Japanese yen has weakened against most of the major currencies over the past few years. It had declined by around 6½ percent against the U.S. dollar, 22 percent against the German mark, 12 percent versus the British pound and 19 percent against the Swiss franc during the two years ended December 1990. However, while the yen has depreciated by another three percent against the dollar so far this year, it has managed to stage a sharp recovery against the European currencies, appreciating by almost 12 percent against the mark, nearly eight percent versus the pound and around nine percent against the Swiss franc since early January (see chart).


JAPANESE YEN VS. SELECTED CURRENCIES
WEEKLY AVERAGES
(JAN. 6, 1989 = 100)

Source: MH

Another reason for the yen's relatively stronger performance this year is the extremely bearish market sentiment toward the mark that existed earlier this year. The weakened German currency has also dragged down many of the other European currencies against the yen via the exchange rate mechanism of the European Monetary System (Financial Digest—April 22, 1991). Also, there has been a dramatic change in Japanese capital flows since early last year. Data for fiscal year 1990/91 (ended March 31) reveal that Japanese investors' net purchases of foreign stocks totaled only $847 million, down from $22.9 billion in the previous year. Net bond purchases were $41.4 billion, barely half the $80.9 billion figure recorded in fiscal year 1989/90.

These Trends Should Continue

While the dollar's ascent has stalled in recent

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

weeks due to the lack of clear evidence of a U.S. economic recovery, a combination of economic growth, interest rate, foreign trade and political developments will probably continue to weaken the yen against the U.S. unit and strengthen it against most European currencies in the months ahead. One exception, however, could be the mark since the Bundesbank's expected new President, Helmut Schlesinger, is a hard-line monetary conservative who will likely keep German interest rates high. For one thing, the U.S. economy is expected to recover later this year, while economic growth in Japan will continue to slow. Japanese economic growth decelerated sharply to a 2.1 percent annual rate in the September-December quarter, down from 4.6 percent in the previous three months. Reflecting a slowdown in business investment and consumer spending, the economy is expected to slow even further in the coming months, resulting in a real economic growth rate of 3.0 to 3.5 percent this year versus 5.6 percent in 1990.

At the same time, although the inflation rate reached a ten-year high of 4½ percent in January (year-over-year), it slowed to four percent in March and should ease further to the 3.0 to 3.5 percent neighborhood by yearend, due to the Bank of Japan's tight monetary policy,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/91)	196,000	- 542	- 19,157
New York City (5/22/91)	32,143	- 430	- 7,479
Commercial Paper (5/22/91)	548,866	+ 445	- 554

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/91)	315,047	- 1,265	- 10,654
New York City (5/22/91)	56,294	- 30	- 2,311

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/91)	1,046,516	+ 1,801	+ 34,006
New York City (5/22/91)	173,287	- 2,781	- 8,085

Financial Markets

	Friday 5/31/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.64%	+ .11	- 2.29
180-Day Bills†	[illegible]	+ .05	- 2.08
Longest Bills†	[illegible]	+ .07	- 1.91
Recent Issues:			
6¾s 5/31/93	6.66	NA	
7⅝s 5/31/96	7.68	NA	
8s 5/15/01	8.04	- .05	
8⅛s 5/15/21	8.24	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (5/30/91)	6.97%	- .01	- .29
Blue List Total ($ Million)	$1,498	+ $ 15	+$ 158
30-Day Visible Supply ($ Million)	$3,119	- $349	+$1,303
Total	$4,617	- $334	+$1,461
Corporates:			
Moody's Aa Composite (5/30/91)	9.15%	- .03	- .45
30-Day Visible Supply ($ Million)	$ 150	- $250	- $ 730
Stocks:			
Dow-Jones Averages:			
Industrials	3,027.50	+ 113.59	+126.53
Transportation	1,229.02	+ 73.70	+ 38.87
Utilities	211.77	+ 1.63	+ .06
65 Stocks	1,085.67	+ 43.20	+ 36.02
N.Y.S.E. Composite Index	212.99	+ 6.33	+ 14.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	204,615	+ 53,964	+31,463

*34% Taxable equivalent 10.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/31/91	Week Ago
Overnight	5.81%	5.69%
1 month	5.81	5.81
3 month	5.94	5.94
6 month	6.06	6.06
1 year	6.44	6.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/31/91)	Currency Per U.S. $	Week Ago
Belgium	35.51	35.19
Canada	1.1450	1.1494
France	5.8445	5.8200
Germany	1.7270	1.7105
Italy	1280.50	1271.00
Japan	138.10	138.40
Mexico	3009.80	3008.20
Netherlands	1.9445	1.9265
South Korea	709.40	712.25
Switzerland	1.4710	1.4515
Taiwan	26.90	27.00
U.K.*	1.7105	1.7280

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/31/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-7.7%

moderate wage settlements and sharply slowing money supply growth.

Slowing economic growth and subsiding inflationary pressures, in turn, will probably prompt the Bank of Japan to cut the discount rate, currently at six percent, although the central bank will likely wait until it examines first quarter GNP data, scheduled to be released later this month, before loosening its tight monetary grip. Stable interest rates in the United States and lower rates in Japan and many of the European countries should narrow Japanese-US interest rate differentials while leaving the gap between Japanese and most European rates virtually unchanged.

Political uncertainty could also place downward pressure on the yen versus the dollar later this year because Prime Minister Kaifu's term as President of the ruling Liberal Party ends in October. And finally, Japan's failure to exert a leadership role on the world political scene may also undermine the Japanese currency, at least against the dollar. At the same time, however, the yen should continue to strengthen against most of the European currencies, supported by stronger economic growth in Japan than in most of Europe and Japan's widening trade surplus with the EC. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/22/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	249.678	- .134	+20.156
Loans to Depository Inst.	.295	- .026	- 1.068
Float	.199	- .087	- 1.067
Total Reserve Bank Credit	285.146	- 2.021	+13.762
Treasury Deposits with Federal Reserve Banks	5.583	+ .652	+ .309
Currency in Circulation	288.596	- .068	+26.170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.348	+ 2.069	+18.075
Member Bank Reserves:	**5/22/91**		
Total Reserves Held	48.477	- .968	- 9.548
Excess (Deficiency)	1.135	+ .159	+ .114
Net Free Reserves	.895	+ .105	∓ .499
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (5/20/91)	852.8	+ 6.6	+ 5.4
M2 (5/20/91)	3,397.7	+ 4.9	+ 3.7
M3 (5/20/91)	4,175.2	+ 1.6	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/31/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.49%	5.67%	5.80%
* Federal Agencies	5.38	5.75	6.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.12
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.95	6.10	6.55

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.85%	Jun.	5.80%
15- 29 days	5.80	Jul.	5.80
30- 59 days	5.78	Aug.	5.80
60- 89 days	5.80	Sep.	5.80
90-179 days	5.84	Oct.	5.82
180-239 days	5.80	Nov.	5.85
240-270 days	6.00		

‡ Industrial Paper–Prime			
30- 89 days	5.85%	†Federal Funds	
90-120 days	5.87	Effective Rate	5.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,562r	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,126r	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.6r	- 1.6	1.7
Change in Consumer Prices*	Apr '91	2.4%	- 1.2%	2.4%
Change in MH Cost of Living Index*	Apr '91	7.2%	2.4%	2.4%
Change in Producer Prices*	Apr '91	2.4%	- 3.6%	- 1.2%
Civilian Employment (Thousands of Persons) †	Apr '91	117,398	116,754	118,090
Unemployment as % of Civilian Labor Force †	Apr '91	6.6%	6.8%	5.4%
Personal Income*	Apr '91 n	$ 4,755	$ 4,752r	$ 4,604
Leading Indicators Composite Index (1967=100) †	Apr '91 n	142.2	141.4r	145.2
Industrial Production Index (1977=100) †	Apr '91	105.1	105.0	108.8
Net Change in Consumer Installment Credit †	Mar '91	- $ 0.93	- $ 0.20	$ 1.16
U.S. Merchandise Trade Balance †	Mar '91	- $ 4.05	- $ 5.50	- $ 8.62r
Plant and Equipment Expenditures*	2nd Q'91	$ 547.9(a)	$ 540.8(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Apr '91	957	901	1,217
New Construction Expenditures*	Mar '91	$ 391.4	$ 397.4	$ 457.3
Total Business Inventories †	Mar '91	$ 821.6	$ 828.2	$ 810.8
Total Business Sales †	Mar '91	$ 522.6	$ 527.9	$ 539.0

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

MANUFACTURERS HANOVER
Only New York has 52 Tie Manufacturers,
279 Health Clubs,
987 Ad Agencies,
and 1,668 Dry Cleaners.
WE ♥

And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (PC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand-in-hand with every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC © 1991 Manufacturers Hanover

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 12 Monday, June 17, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

A Tepid Recovery Ahead

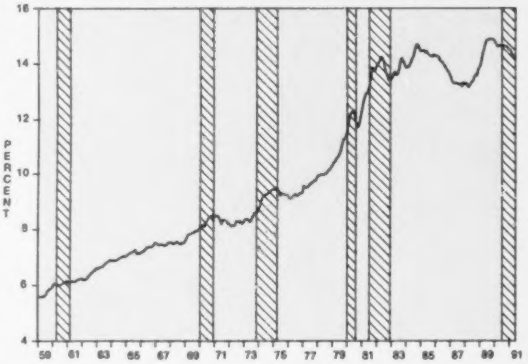
With evidence building that the economy is in the process of bottoming—if not actually expanding—the arbiters of economic opinion are shifting gears, no longer debating the likely depth and duration of the current recession, but rather, the contours of recovery. In the past, economic growth rates of seven percent have been typically posted during the first year of recovery from preceding postwar recessions, a prospect which is already unsettling the inflation-wary bond markets and steeling the resolve of those Federal Reserve policymakers who are disinclined to undertake further monetary easing initiatives.

At this juncture, however, fears of a robust, inflation-generating business rebound seem premature. This is especially so when you consider that one of the major engines of previous recoveries, consumer spending, is unlikely to provide a significant lift to the economy—notwithstanding May's admittedly hefty one percent jump in retail sales. Hobbled by lackluster income growth, anemic savings and lofty debt burdens, a wide gap currently exists between any rising desire to spend, and the wherewithal to do so. Until labor market conditions improve and income growth revives, this divergence will persist, as will the odds of a tepid recovery.

To be sure, there are budding signs of life in the labor market. Although jobs are still hard to come by in many areas and industries, fewer people seem to be losing their jobs and more people seem to be finding work. Since March, for example, initial claims for state jobless benefits have been trending lower and, by the end of last month, were running 26 percent below their late winter peak. Perhaps more important is the fact that improvement is starting to show up in the employment numbers. According to the Labor Department, nonfarm payroll jobs rose by 59,000 persons in May, the first monthly rise since last June. Factory payrolls edged higher last month for the first time in more than a year, while the average workweek lengthened and overtime worked increased. Also increasing were average hourly earnings, which rose by 0.4 percent in May, identical to the rise posted in April.

Nonetheless, while Wall Street shudders at the prospect of a healthier job market and the recession's end, these developments do little either to alleviate household financial stress, or to increase the odds of a muscular consumer-led recovery. For one thing, the key that unlocks the spending door is more income and, notwithstanding the recent bounce to wage growth, consumers still find their wallets severely pinched. Over the past 12 months, personal income has risen by just a shade more than three percent—far lower than the six percent plus increases that were being posted as recently as a year and a half ago. After adjustment for inflation, the news is even bleaker. Real personal income has actually dropped over the past year, falling by 1.2 percent—one of the largest recession-related contractions ever. For another, although spending levels have been lethargic, they have generally kept pace with the ups and downs of income. The result is a savings rate riveted in the 3½ percent neighborhood, abysmal by almost any yardstick, and down from 5¼ percent a year ago.

INTEREST INCOME AS A PERCENT OF PERSONAL INCOME



Source: Commerce Department

White Collar Blues

Nor does a quick turnaround in household income or savings prospects appear to be in the offing, even if aggregate output is expanding once again. Changes in the jobless ranks and shifts in the composition of personal income do more to explain the anemic performance of income growth in recent months than simply a cursory glance at such broad-brush statistics as payroll employment and the jobless rate. Take, for example, the newly unemployed. While the

270 Park Avenue, New York, NY 10017

number of jobs lost during this recession was not unusually large, the difference lies in where the ax fell.

This time around nearly ten percent of the 1.3 million jobs lost since last summer has come from the ranks of so-called "white collar" workers. These include many highly-paid managerial and professional employees who found themselves at the cutting edge of vigorous corporate cost-cutting in such industries as banking, insurance and real estate. This is far different than past experience. In each of the four recessions preceding this one, white collar employment continued to expand, while the "blue collar" ranks shouldered the entire jobless burden. Although this development may not seem surprising in light of the growth of the white collar workforce over the past two decades, it is problematic as to whether or not many of these jobs will ever reappear. While they might, some of the newly unemployed apparently do not think so. The labor force participation rate for men in the 55 to 64 age group has been dropping for months, a development which suggests that many laid-off employees have decided to forego a job search, and have decided instead either to become self-employed or to retire and

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	196,712	- 176	- 18,593
New York City (6/5/91)	32,277	+ 92	- 7,869
Commercial Paper (6/5/91)	542,832	- 1,799	- 5,861

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	312,334	- 973	- 10,420
New York City (6/5/91)	55,876	+ 87	- 2,452

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	1,041,437	+ 2,311	+ 31,427
New York City (6/5/91)	173,781	- 1,320	- 9,552

Financial Markets

	Friday 6/14/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.72%	+ .01	- 2.21
180-Day Bills†	6.02	+ .06	- 2.00
Longest Bills†	6.33	- .03	- 1.71
Recent Issues:			
6⅞s 5/31/93	6.98	+ .01	
7⅞s 5/31/96	7.92	- .03	
8s 5/15/01	8.27	- .01	
8⅛s 5/15/21	8.47	-0-	
Municipals:			
Bond Buyer—20 Bond Index* (6/13/91)	7.19%	+ .13	- .01
Blue List Total ($ Million)	$1,574	- $ 17	+$ 172
30-Day Visible Supply ($ Million)	$3,155	+ $348	+$1,980
Total	$4,729	+ $331	+$2,152
Corporates:			
Moody's Aa Composite (6/13/91)	9.32%	+ .07	- .11
30-Day Visible Supply ($ Million)	$ 200	- $550	- $ 900
Stocks:			
Dow-Jones Averages:			
Industrials	3,000.45	+ 23.71	+ 64.55
Transportation	1,231.14	+ 3.71	+ 37.88
Utilities	210.20	+ .94	- 1.51
65 Stocks	1,079.67	+ 6.46	+ 23.02
N.Y.S.E. Composite Index	209.34	+ 1.15	+ 11.49
N.Y.S.E. Avg. Daily Vol. for Week (000's)	154,281	- 20,930	+ 3,465

*34% Taxable equivalent 10.89%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/14/91	Week Ago
Overnight	5.75%	5.81%
1 month	6.00	6.06
3 month	6.13	6.13
6 month	6.38	6.31
1 year	6.88	6.81

FOREIGN EXCHANGE SPOT RATES New York Opening (6/14/91)	Currency Per U.S. $	Week Ago
Belgium	36.98	36.36
Canada	1.1444	1.1468
France	6.1065	5.9935
Germany	1.7960	1.7685
Italy	1340.80	1312.00
Japan	140.95	140.00
Mexico	3016.20	3013.40
Netherlands	2.0240	1.9927
South Korea	713.63	712.16
Switzerland	1.5415	1.5170
Taiwan	26.92	26.88
U.K.*	1.6325	1.6726

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/14/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.7%	-6.1%

rely on non-wage income.

Lower Interest Rates Also Hurt

However, it may be the wrong time to depend upon non-wage income, especially interest income, to maintain a formerly wage-supported lifestyle. One of the principal features of the squeeze on household cash flow has been the plateauing of interest income. For although household installment debt stands at a near-record, and well-publicized, 18.2 percent of disposable income, the opposite side of the ledger is that people are deriving a near-record proportion of their personal income from interest receipts. As shown in the chart, this proportion has been rising virtually nonstop for decades, and the fact is that households actually earn more than twice as much in interest income—$680 billion—as they pay out in interest expense—$320 billion. As a result, the downdraft in interest rates engineered by the Federal Reserve has hurt as well as helped, hitting the consumer right in the wallet by bringing interest income growth to a halt. With no offset at hand, the slow wage growth and the plateauing of interest income have delivered a one-two punch which will take a toll on consumer spending, hence the upturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/12/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	253.951	- .820	+16.251
Loans to Depository Inst.	.349	+ .120	- 1.189
Float	.295	- .315	- .277
Total Reserve Bank Credit	291.165	- .563	+11.028
Treasury Deposits with Federal Reserve Banks	5.158	- .784	+ .584
Currency in Circulation	290.988	+ .320	+25.087
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.697	+ 1.644	+15.985
Member Bank Reserves:	6/12/91		
Total Reserves Held	50.103	+ 1.634	- 9.498
Excess (Deficiency)	.815	- .290	+ .336
Net Free Reserves	.540	- .325	+ .793
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (6/3/91)	850.6	+ 6.9	+ 5.8
M2 (6/3/91)	3,387.1	+ 4.1	+ 3.8
M3 (6/3/91)	4,159.4	+ 0.5	+ 2.6
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/14/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.72%	6.04%	6.33%
* Federal Agencies	5.75	5.88	6.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.21	6.44	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.18	6.38	6.88

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.65%	Jul.	5.98%
15- 29 days	5.72	Aug.	6.00
30- 59 days	5.95	Sep.	6.03
60- 89 days	6.03	Oct.	6.03
90-179 days	6.07	Nov.	6.08
180-239 days	6.00	Dec.	6.08
240-270 days	6.15		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	6.01%		
90-120 days	6.05	Effective Rate	5.63%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,126	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.6	- 1.6	1.7
Change in Consumer Prices*	May '91 n	3.6%	2.4%	2.4%
Change in MH Cost of Living Index*	May '91 n	2.4%	7.2%	3.6%
Change in Producer Prices*	May '91 n	7.2%	2.4%	3.6%
Civilian Employment (Thousands of Persons) †	May '91 n	116,591	117,398	118,277
Unemployment as % of Civilian Labor Force †	May '91 n	6.9%	6.6%	5.3%
Personal Income*	Apr '91	$ 4,755	$ 4,752	$ 4,604
Leading Indicators Composite Index (1967=100) †	Apr '91	142.2	141.4	145.2
Industrial Production Index (1977=100) †	May '91 n	105.8	105.3r	109.4
Net Change in Consumer Installment Credit †	Apr '91 n	$ 1.70	- $ 0.32	$ 1.12
U.S. Merchandise Trade Balance †	Mar '91	- $ 4.05	- $ 5.50	- $ 8.62
Plant and Equipment Expenditures*	3rd Q'91 n	$ 553.5 (a)	$ 544.2 (a) r	$ 534.9
Private Housing Starts (Thousands of Units)*	Apr '91	957	901	1,217
New Construction Expenditures*	Apr '91 n	$ 392.6	$ 389.3r	$ 444.7
Total Business Inventories †	Apr '91 n	$ 815.2	$ 819.6r	$ 813.0r
Total Business Sales †	Apr '91 n	$ 529.6	$ 523.1r	$ 535.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS
HANOVER

Strength

In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

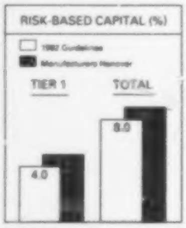
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



© 1991 Manufacturers Hanover Trust Company

MANUFACTURERS
HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial
Digest

B5350.2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 13 Monday, July 1, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Eastern Europe's Dramatic Change

The political developments sweeping Eastern Europe in recent years have occurred with such breathtaking rapidity that the world has been left incredulous. But, just as significant is the fact that demands for political reform have been accompanied by calls to scrap the existing command economies and replace them with full-fledged free market systems. In order to achieve this ambitious goal, Western financial assistance and investment will be needed. And, while expectations must be kept realistic and an array of pitfalls exists, private investors face a variety of opportunities in these countries.

Until recently, direct investment played only a minor role in East-West economic relations. Instead, business between the blocs centered largely around trade, often on a barter basis, and banking relations. However, in the wake of the economic reforms undertaken in Eastern Europe, vastly greater attention is now being paid to attracting direct investment, a change in mood prompted by the necessity to modernize the means of production, privatize state-owned industry and introduce quickly Western managerial skills and methods.

While all types of reform measures are being discussed, privatization is one of the linchpins around which the success, or failure of economic modernization and liberalization in Eastern Europe will hinge. Not only does it hold out the promise of capital to rebuild Eastern Europe's woefully uncompetitive industrial base but, if successful, it will also create a new entrepreneurial culture. The task ahead, however, is far from easy. In order to attract foreign investment, one of the first priorities that Eastern European countries must tackle is the need to introduce a legal system that recognizes private ownership of property and clearly codifies the rights and responsibilities of such owners. This is because foreign investors must know whether they can buy and sell land, both for their own personal use and for the operations of their business.

And, that is just a start, albeit an essential one. In most cases, newly-democratic governments are starting from scratch, having to draw up new ways of doing business, assessing assets and learning on the job. The task is further complicated by an inadequate, if not non-existent, infrastructure, a skeptical population and a largely obsolete capital stock. There has been much resistance to privatization throughout Eastern Europe, due to several factors. For one thing, there is the concern about job losses. For another, some people fear that their country may be sold off too cheaply to foreign investors.

Joint Ventures Ease Western Access

Perhaps the best way to lessen such resistance, while encouraging foreign investment, is through joint ventures, in which the citizens of the recipient country retain substantial participation. Joint ventures between foreign and domestic partners are a form of Western direct investment in Eastern Europe. Nearly 16,000 of these transactions existed at the beginning of this year, according to the Austrian Economics Ministry, compared with less than 600 at the beginning of 1989. In general, the domestic partner is responsible for infrastructure—land and buildings, for example—as well as communications and staff. At the same time, the foreign partner provides technological, marketing and management know-how and takes care of foreign exchange requirements. The foreign investor is interested in, and obtains, a presence in Eastern European markets with their attractive wage levels and generally skilled pool of labor.

Over the past year, Hungary, where the process of liberalization is relatively advanced, has enjoyed the distinction of garnering the most foreign investment of any country in the former East bloc—about $1 billion—while fast-changing Poland attracted about half as much. Among the larger transactions have been the purchase of the Tungsram electric bulb group in Hungary by General Electric a year ago, and the purchase of Zameck, the Polish Turbine manufacturer, by ABB of Switzerland. There have been sizable deals in other countries as well, such as the 70 percent share of the Skoda car works in Czechoslovakia acquired by Volkswagen of Germany last year. But, notwithstanding these highly-publicized transactions, the

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

process of privatization of companies which need substantial infusions of capital and wholesale restructuring has taken place only very slowly.

Human Capital Needs Upgrading

A central feature in the rebuilding of Eastern Europe will have to be the enhancement of human capital. Although the labor force in these countries is generally skilled, the combination of an obsolete capital stock and minimal material incentives has kept productivity abysmally low, with devastating effects on product quality and competitiveness. Although additional training, mainly on the job, will help, it will not reverse quickly four decades of lethargic performance. New talents will have to be developed, while such free market virtues as creativity, initiative and personal leadership, which were not highly valued in the former command economies, must be nurtured.

While impatience pervades Eastern Europe, long-term progress will only be achieved step-by-step. The amount of institutional change needed is enormous. A modern banking system must be developed—one which allocates scarce resources to their most productive uses, rather than by political fiat. Prices must be freed from rigid control, currencies made convertible, pri-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/12/91)	193,755	- 648	- 20,431
New York City (6/19/91)	31,491	- 545	- 7,738
Commercial Paper (6/19/91)	546,258	+ 1,026	- 4,110

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/12/91)	309,496	- 2,455	- 12,696
New York City (6/19/91)	56,004	+ 629	- 2,079

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/12/91)	1,037,457	- 2,450	+ 24,072
New York City (6/19/91)	173,051	- 305	- 9,826

Financial Markets

	Friday 6/28/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.68 %	- .03	- 2.31
180-Day Bills†	5.92	- .07	- 2.08
Longest Bills†	6.30	- .02	- 1.73
Recent Issues:			
7s 6/30/93 (When Issued)	6.89	NA	
7⅞s 6/30/96 (When Issued)	7.88	NA	
8s 5/15/01	8.23	- .09	
8⅛s 5/15/21	8.41	- .11	
Municipals:			
Bond Buyer—20 Bond Index* (6/27/91)	7.13 %	- .02	- .14
Blue List Total ($ Million)	$1,394	- $ 93	- $ 32
30-Day Visible Supply ($ Million)	$1,405	- $1,553	- $424
Total	$2,799	- $1,646	- $456
Corporates:			
Moody's Aa Composite (6/27/91)	9.30 %	- .01	- .20
30-Day Visible Supply ($ Million)	$ 375	- $ 25	- $845
Stocks:			
Dow-Jones Averages:			
Industrials	2,906.75	- 58.81	+ 26.06
Transportation	1,153.22	- 37.37	+ 10.52
Utilities	196.81	- 1.00	- 13.14
65 Stocks	1,030.92	- 22.24	- .05
N.Y.S.E. Composite Index	203.51	- 3.36	+ 8.03
N.Y.S.E. Avg. Daily Vol. for Week (000's)	159,990	- 364	+19,234

*34% Taxable equivalent 10.80%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/28/91	Week Ago
Overnight	5.25%	5.75%
1 month	6.00	5.94
3 month	6.06	6.00
6 month	6.44	6.25
1 year	6.88	6.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/28/91)	Currency Per U.S. $	Week Ago
Belgium	37.33	37.05
Canada	1.1415	1.1421
France	6.1400	6.1115
Germany	1.8120	1.7984
Italy	1349.00	1339.00
Japan	138.08	138.45
Mexico	3021.80	3019.00
Netherlands	2.0426	2.0260
South Korea	710.87	711.86
Switzerland	1.5595	1.5460
Taiwan	26.83	26.90
U.K.*	1.6215	1.6308

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/28/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.3%	-6.0%

vatization encouraged and new businesses formed. People who possess skills in marketing, accounting, finance and taxation and personnel management are desperately needed. Foreign capital will bring new technology and management skills, which are vital. But there is no escape from the painstaking, case-by-case process of building the institutions and systems which are needed. That means building organizational structures, changing deep-seated attitudes and the development of a new entrepreneurial culture.

Most East European governments do not want a "middle way" between communism and capitalism. Their ambition is to create full-fledged market economies based upon the Western model as soon as possible. This reform process will pose a unique challenge to foreign investors as well. They must come up with their own initiatives to support the rapid pace of change that is underway in the former Eastern bloc. Without technical help from abroad, Eastern European countries will simply not be able to make efficient use of the sizable loans from Western governments. Implementing the changes which will transform Eastern Europe into efficient market-oriented economies is one of the most pressing economic challenges of the decade. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/26/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	253.714	+ 1.180	+17.692
Loans to Depository Inst.	.363	+ .119	- .261
Float	.144	- .366	- .403
Total Reserve Bank Credit	291.253	+ 1.144	+13.356
Treasury Deposits with Federal Reserve Banks	5.745	- .232	+ .382
Currency in Circulation	290.553	- .358	+25.085
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	243.915	- 3.754	+16.550
Member Bank Reserves:	**6/26/91**		
Total Reserves Held	50.410	+ .263	- 9.050
Excess (Deficiency)	1.311	+ .575	+ .294
Net Free Reserves	1.005	+ .543	+ .371
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (6/17/91)	860.7	+ 7.9	+ 6.0
M2 (6/17/91)	3,406.4	+ 3.4	+ 3.8
M3 (6/17/91)	4,176.2	0.0	+ 2.6
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/28/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.55%	5.72%	5.98%
* Federal Agencies	5.95	6.10	6.55
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.36	6.52	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.10	6.32	6.80

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.93%	Jul.	5.95%
15- 29 days	5.95	Aug.	5.95
30- 59 days	5.98	Sep.	5.95
60- 89 days	5.98	Oct.	6.00
90-179 days	5.85	Nov.	6.02
180-239 days	5.88	Dec.	6.02
240-270 days	6.05		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	6.07%		
90-120 days	6.10	Effective Rate	6.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,558 r	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,124 r	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.8 r	- 1.6	1.7
Change in Consumer Prices*	May '91	3.6%	2.4%	2.4%
Change in MH Cost of Living Index*	May '91	2.4%	7.2%	3.6%
Change in Producer Prices*	May '91	7.2%	2.4%	3.6%
Civilian Employment (Thousands of Persons) †	May '91	116,591	117,398	118,277
Unemployment as % of Civilian Labor Force †	May '91	6.9%	6.6%	5.3%
Personal Income*	May '91 n	$ 4,779	$ 4,755	$ 4,621
Leading Indicators Composite Index (1967=100) †	May '91 n	143.1	142.0 r	146.0
Industrial Production Index (1977=100) †	May '91	105.8	105.3	109.4
Net Change in Consumer Installment Credit †	Apr '91	$ 1.70	- $ 0.32	$ 1.12
U.S. Merchandise Trade Balance †	Apr '91 n	- $ 4.78	- $ 4.07 r	- $ 7.62
Plant and Equipment Expenditures*	3rd Q'91	$ 553.5 (a)	$ 544.2 (a)	$ 534.9
Private Housing Starts (Thousands of Units)*	May '91 n	982	981 r	1,208
New Construction Expenditures*	Apr '91	$ 392.6	$ 389.3	$ 444.7
Total Business Inventories †	Apr '91	$ 815.2	$ 819.6	$ 813.0
Total Business Sales †	Apr '91	$ 529.6	$ 523.1	$ 535.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Global

With Customers In Over 100 Countries, We Speak A Universal Language.

GEOSERVE
A2

The language that moves the world's portfolios. With speed. With ease. With custodial expertise that's not just talk.

It's technology. Our unsurpassed securities workstation — GEOPAC℠ An electronic messenger that delivers all the information you need to manage your investments. Real-time. On-line. Just press the key.

It's presence. A network of subcustodians with the local clout to process your orders smoothly, successfully. A persuasive voice heard all across the globe.

It's commitment. An organization settling a single transaction every other second and over 10,000 every single day. Faster than you can say GEOSERVE.

When you talk — we listen. In your language. Let us hear from you. In New York, call Diane Reyes, Vice President at (212) 270-4694 or in London, John Gibson, Vice President at (01) 932-3609.

©19[illegible] Manufacturers Hanover Trust Company
All Rights Reserved. Member FDIC. Member of the Securities Association

GEOSERVE℠
We Get Around

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 14

Monday, July 15, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

The Trade Picture Brightens

Notwithstanding the widening of the U.S. merchandise trade deficit from $4.1 billion in March to $4.8 billion in April, there is little doubt that the United States is experiencing a marked improvement in trade performance this year. Although April's trade shortfall was some $700 million larger than that recorded in March, it was $2.8 billion below the $7.6 billion gap posted in April of last year. Indeed, the $21.7 billion trade deficit registered during the first four months of this year was a hefty 36 percent below 1990's same period shortfall of $33.8 billion. On an annualized basis, the United States is currently running a trade deficit of about $65 billion which, if this number holds up, would be one third smaller than last year's $101.7 billion figure and less than half the record $152.1 billion trade gap posted in 1987.

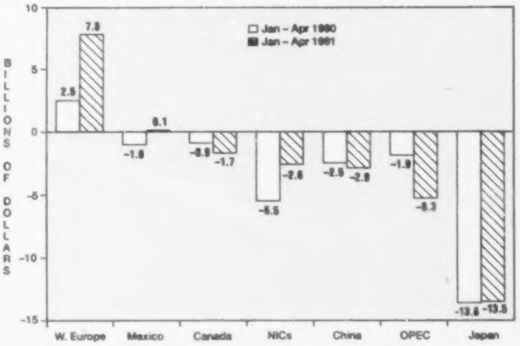
While a recession-related dip in imports has contributed to the narrower trade deficit, a far more important factor has been the persistent strength of U.S. exports. Despite a decided slowing of economic activity abroad, exports have held up remarkably well, setting a new monthly record of $35.6 billion in April. During the first four months of 1991, exports increased by around seven percent compared with the same period a year ago, while imports have declined by about two percent.

The increase in foreign sales was broad-based. During the January-April 1991 period, exports of capital goods rose by $3.3 billion compared with the same period a year ago, sales of industrial supplies and materials jumped by $3.7 billion and commercial jet aircraft shipments increased by nearly $650 million. During the same period, on the import side of the ledger, automobile imports fell by $1.4 billion, while imports of industrial supplies and materials decreased by $2½ billion.

Gains Are Widespread

The United States improved its trade performance with almost all of its major trading partners this year, with the exceptions of Canada, China and the oil exporting nations of OPEC (see chart). The biggest improvement has been with Western Europe. As recently as five years ago, the United States posted a huge $28 billion deficit with this region, raising doubts as to whether this country would ever recoup the markets lost during the early 1980s when the dollar was excessively overvalued in the foreign exchange markets. Now, however, the tables have turned dramatically and the doubts have dissipated.

U.S. MERCHANDISE TRADE BALANCE
WITH SELECTED TRADING PARTNERS



Source: Commerce Department

With exports nearly doubling between 1986 and 1990, a byproduct of a more realistic dollar exchange rate and an extended period of faster European growth, the U.S. trade balance with Western Europe moved into the black last year for the first time since 1983—by a shade more than $4 billion—and has continued to widen this year. A trade surplus of $7.8 billion was posted in the first four months of this year, and it could reach $20 billion by yearend. And, while our trade balance with Germany is still in the red, the $1.4 billion deficit posted so far this year is less than half the $3 billion shortfall recorded in the first four months of 1990, a reflection of the rebuilding of the five new eastern states which has boosted German demand for U.S. capital goods.

Another region where the United States has made major trade inroads is with the four newly industrialized countries of East Asia (NICs). Whereas trade tensions with these countries dominated commercial relations throughout the 1980s, more aggressive efforts by the NICs to redress existing trade imbalances have begun to pay handsome dividends. The United States is now posting trade surpluses with South Korea, Singapore and Hong Kong, while our trade deficit with Taiwan withered to $2.8 billion in the first four months of this year, down from

270 Park Avenue, New York, NY 10017

$3.2 billion in January-April 1990. Just last year, Taiwan's trade surplus with the United States was second only to Japan's but, if current trends continue, it may disappear entirely within the next two to three years.

South of the border, the U.S. trade balance with Mexico, our third largest trading partner after Canada and Japan, moved into surplus this year—to the tune of $56 million in the first four months from a deficit of $1 billion a year ago—due to Mexico's ongoing efforts to liberalize its economy. And, while our trade gap with Japan narrowed by only $100 million in the first four months of this year, this number looks good in perspective, especially when you consider that Japan's trade surpluses with both Europe and the rest of Asia are soaring.

While trade balances with most of the world have improved this year, the deficit with Canada, our largest trading partner, has not, widening to $1.7 billion in the January-April period from $800 million a year ago. Although Canada's prolonged recession has dampened that country's import appetite in general, the United States has shouldered the brunt of the cutbacks.

The trade deficit with China also widened, from

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/26/91)	190,854	- 1,915	- 21,594
New York City (7/3/91)	32,123	+ 1,177	- 7,811
Commercial Paper (7/3/91)	544,782	- 1,106	+ 3,629

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/26/91)	308,956	- 907	- 12,950
New York City (7/3/91)	54,854	- 452	- 2,089

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/26/91)	1,038,584	+ 546	+ 26,776
New York City (7/3/91)	171,681	- 2,536	- 8,290

Financial Markets

	Friday 7/12/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.68%	- .04	- 2.13
180-Day Bills†	5.90	- .03	- 1.99
Longest Bills†	6.21	- .16	- 1.68
Recent Issues:			
7s 6/30/93	6.83	- .19	
7⅞s 6/30/96	7.89	- .10	
8s 5/15/01	8.24	- .09	
8⅛s 5/15/21	8.43	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (7/11/91)	7.07%	- .03	- .14
Blue List Total ($ Million)	$1,189	+ $ 70	+$ 205
30-Day Visible Supply ($ Million)	$3,799	+ $898	+$1,515
Total	$4,988	+ $968	+$1,720
Corporates:			
Moody's Aa Composite (7/11/91)	9.27%	- .02	- .25
30-Day Visible Supply ($ Million)	$ 725	+ $ 97	- $ 245
Stocks:			
Dow-Jones Averages:			
Industrials	2,980.77	+ 48.30	+ .57
Transportation	1,209.45	+ 13.75	+ 21.86
Utilities	198.06	+ .50	- 8.12
65 Stocks	1,061.30	+ 13.74	+ 1.79
N.Y.S.E. Composite Index	208.17	+ 3.25	+ 7.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	159,830	+ 26,555	- 12.125

*34% Taxable equivalent 10.71%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/12/91	Week Ago
Overnight	5.81%	5.81%
1 month	5.94	5.94
3 month	6.06	6.06
6 month	6.31	6.38
1 year	6.69	6.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/12/91)	Currency Per U.S. $	Week Ago
Belgium	37.30	37.60
Canada	1.1484	1.1436
France	6.1400	6.1930
Germany	1.8085	1.8275
Italy	1347.50	1359.30
Japan	138.30	138.35
Mexico	3027.40	3025.00
Netherlands	2.0380	2.0575
South Korea	717.77	714.62
Switzerland	1.5695	1.5755
Taiwan	26.74	26.75
U.K.*	1.6315	1.6165

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/12/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-9.1%

$2½ billion in January-April 1990 to almost $3 billion so far this year. In an effort to build foreign exchange reserves, China has initiated a major export drive, while placing a tight lid on imports. Benefiting from its "most favored-nation" trade status, China is the only non-free market economy to have become a major exporter to the United States, replacing Taiwan as the country with which we have our second biggest trade deficit after Japan.

Further Improvement Ahead

On a global basis, the U.S. trade deficit should continue to shrink, even if the current rebound in economic activity results in an increase in imports. The trade improvement, which is far more attributable to export growth than import shrinkage, began long before the United States lapsed into recession, and is unlikely to end once economic growth accelerates. What is more, exports have performed well during a period when a number of European economies slipped into the doldrums; they are likely to do even better when Europe recovers later this year. Further ahead, and closer to home, the creation of a North American free trade zone with Canada and Mexico could give a further lift to U.S. exports in coming years. In any event, the days of $100 billion-plus annual trade deficits are over. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/10/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	261.061	+ 2.750	+20.202
Loans to Depository Inst.	.332	- .537	- .243
Float	.480	- .175	- .427
Total Reserve Bank Credit	296.684	+ 1.914	+13.897
Treasury Deposits with Federal Reserve Banks	7.081	- 2.426	+ 1.108
Currency in Circulation	294.846	+ 2.544	+24.839
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	241.662	- 1.894	+14.913
Member Bank Reserves:	7/10/91		
Total Reserves Held	51.267	+ .877	- 9.099
Excess (Deficiency)	.806	- .474	- .095
Net Free Reserves	.211	- .763	- .291
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (7/1/91)	862.1	+ 7.4	+ 6.1
M2 (7/1/91)	3,396.5	+ 2.4	+ 3.6
M3 (7/1/91)	4,152.3	- 0.8	+ 2.4
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjueted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/12/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.54%	5.67%	5.86%
* Federal Agencies	5.95	6.10	6.55
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.67	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.05	6.30	6.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.65%	Aug.	5.94%
15- 29 days	5.80	Sep.	5.94
30- 59 days	5.86	Oct.	5.95
60- 89 days	5.88	Nov.	5.98
90-179 days	5.88	Dec.	6.02
180-239 days	6.05	Jan.	6.05
240-270 days	6.10		

‡ Industrial Paper–Prime			
30- 89 days	5.89%	†Federal Funds	
90-120 days	5.95	Effective Rate	5.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

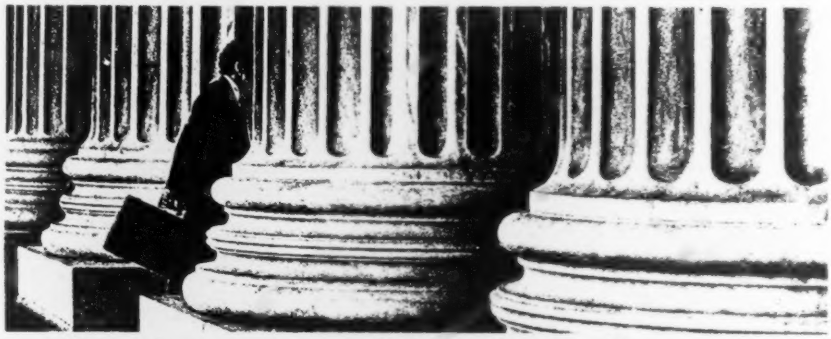
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,558	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,124	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.8	- 1.6	1.7
Change in Consumer Prices*	May '91	3.6%	2.4%	2.4%
Change in MH Cost of Living Index*	May '91	2.4%	7.2%	3.6%
Change in Producer Prices*	Jun '91 n	- 3.6%	7.2%	0.0%
Civilian Employment (Thousands of Persons) †	Jun '91 n	116,884	116,591	118,237
Unemployment as % of Civilian Labor Force †	Jun '91 n	7.0%	6.9%	5.3%
Personal Income*	May '91	$ 4,779	$ 4,755	$ 4,621
Leading Indicators Composite Index (1967=100) †	May '91	143.1	142.0	146.0
Industrial Production Index (1977=100) †	May '91	105.8	105.3	109.4
Net Change in Consumer Installment Credit †	May '91 n	- $ 0.63	$ 1.18r	$ 1.78
U.S. Merchandise Trade Balance †	Apr '91	- $ 4.78	- $ 4.07	- $ 7.62
Plant and Equipment Expenditures*	3rd Q'91	$ 553.5 (a)	$ 544.2 (a)	$ 534.9
Private Housing Starts (Thousands of U	May '91	982	981	1,208
New Construction Expenditures*	May '91 n	$ 403.1	$ 406.6r	$ 443.8
Total Business Inventories †	Apr '91	$ 815.2	$ 819.6	$ 813.0
Total Business Sales †	Apr '91	$ 529.6	$ 523.1	$ 535.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

**MANUFACTURERS
HANOVER**

Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

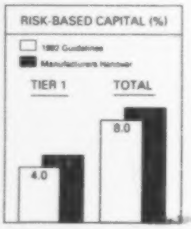
We exceeded these standards 2 years ago.

At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.



Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

© 1991 Manufacturers Hanover Trust Company

**MANUFACTURERS
HANOVER**

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

C04630000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

**Financial
Digest**

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 15

Monday, July 29, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

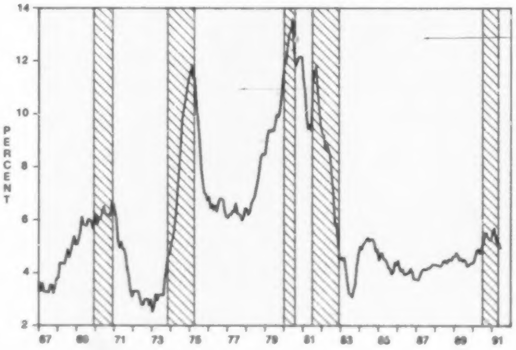
Inflation At Bay

One of the more persistent, if needlessly exaggerated, concerns overhanging the financial markets is that any business recovery will generate higher rates of inflation. For notwithstanding the moribund state of industrial commodity prices and the lethargic pace of wage growth, virtually every sign of a pickup in economic activity, while applauded on Main Street, is greeted with dismay on Wall Street. Largely for this reason, long-term interest rates have been marching to the beat of their own drummer, trending higher in recent weeks, while turning a blind eye to all indications that this will be a tepid business rebound at best, and that the inflation rate itself has actually been slowing rather than accelerating. Also being ignored is the likelihood that some of the best inflation news may be yet to come. During the initial stages of recovery, productivity growth usually outpaces earnings growth, capping both unit labor costs and subsequent price pressures.

At this juncture, the trend toward diminished inflation momentum is becoming well established. According to the Labor Department, consumer prices rose by a paltry 0.2 percent in June, one of the slowest monthly increases so far this year. This brought the 12-month change in the consumer price index to 4.6 percent, well below the six percent plus posted last fall. Over the past three months, price performance has been even more benign. Consumer prices rose at about a three percent annual rate in the second quarter; they were rising at a 4½ percent annual clip in the second quarter of last year. And, perhaps even more important, the so-called "core" rate of inflation, which nets out the swings in food and energy prices, seems to be yielding to the subdued business environment. These prices have increased by 4.9 percent over the past year, the slowest year-over-year rise since the spring of last year.

The favorable trends in consumer prices are at least partially reflective of the even more noteworthy fading of producer price pressures. In June, for example, producer prices for finished goods declined, the third monthly drop so far this year. This brought the year-over-year rise to just a shade under 3¼ percent, or less than half the rate of rise being posted last fall. In fact, producer price inflation at the earlier stages of production—so-called pipeline inflation—has largely evaporated. At the intermediate level of production, producer prices have increased by only one percent over the past year, while crude goods prices, the cost of materials just entering the production stream, have dropped by 1.6 percent over the past year.

12-MONTH PERCENT CHANGE IN CONSUMER PRICE INDEX LESS FOOD & ENERGY



Source: Bureau of Labor Statistics

Favorable Influences

Several factors account for the recent string of good inflation rate numbers. For one thing, industrial commodity prices are behaving atypically at this stage of the business cycle. In the past, the onset of recovery and quickening production schedules have pushed sensitive industrial commodity prices decidedly higher. This time around, quite the opposite is occurring: These prices seem to be in nonstop decline, and have fallen by better than 12 percent during the past year.

For another, the seven percent jobless rate and repeated rounds of vigorous corporate cost-cutting are restraining the growth of wages and salaries—muting not only supply-side cost pressures, but also limiting the wherewithal of consumers to step up spending, potentially fueling demand-side price pressures. According to the Labor Department's Employment Cost In-

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

dex—the most comprehensive gauge of compensation trends—wage and salaries growth throughout the private sector has been slowing for a year. Even the torrid pace of benefit increases has ebbed, stemming, and recently reversing the rise of overall compensation costs. Since these costs account for some two-thirds of all manufacturing costs, the noticeably slower ascent of compensation costs is keeping a lid on per unit costs. Not surprisingly, household personal income in the past year has taken a beating; after adjustment for inflation, personal income has registered one of the largest recession-related contractions on record. (Financial Digest—June 17, 1991).

More Progress To Come

Slumping commodity prices, restrained compensation cost increases and eroding real incomes all bode well for the inflation outlook. So, too, does the current stage of the business cycle. For rather than generating a quick uptick in inflation, the initial stages of recovery do the opposite, and are usually accompanied by lower rates of inflation. This is because recoveries boost output much more quickly than either the workforce or earnings, translating into productivity improvements and lower per unit costs. As shown in the chart, the inflation rate continues to decelerate after the trough of a business downturn, adding to the improvements which

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/10/91)	189,407	- 611	- 28,095
New York City (7/17/91)	31,899	+ 50	- 7,720
Commercial Paper (7/17/91)	539,077	- 4,165	- 3,556

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/10/91)	307,035	- 1,725	- 14,861
New York City (7/17/91)	55,297	+ 713	- 2,381

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/10/91)	1,032,176	- 4,655	+ 20,354
New York City (7/17/91)	171,393	+ 568	- 11,651

Financial Markets

	Friday 7/26/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.72%	+ .01	- 2.03
180-Day Bills†	5.93	- .03	- 1.85
Longest Bills†	6.22	- .01	- 1.55
Recent Issues:			
6⅞s 7/31/93 (When Issued)	6.84	NA	
7⅞s 7/31/96 (When Issued)	7.81	NA	
8s 5/15/01	8.20	- .08	
8⅛s 5/15/21	8.39	- .08	
Municipals:			
Bond Buyer—20 Bond Index* (7/25/91)	7.00%	- .04	- .15
Blue List Total ($ Million)	$1,214	+ $ 42	+ $100
30-Day Visible Supply ($ Million)	$2,086	- $782	+ $770
Total	$3,300	- $740	+ $870
Corporates:			
Moody's Aa Composite (7/25/91)	9.19%	- .08	- .27
30-Day Visible Supply ($ Million)	$ 325	- $200	+ $ 75
Stocks:			
Dow-Jones Averages:			
Industrials	2,972.50	- 43.82	+ 73.98
Transportation	1,204.51	- 13.58	+ 69.84
Utilities	202.97	+ 2.89	- .38
65 Stocks	1,061.89	- 10.32	+ 34.61
N.Y.S.E. Composite Index	208.78	- 1.85	+ 15.46
N.Y.S.E. Avg. Daily Vol. for Week (000's)	148,129	- 36,469	- 23,841

*34% Taxable equivalent 10.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/26/91	Week Ago
Overnight	5.69%	5.75%
1 month	5.88	5.94
3 month	5.94	6.00
6 month	6.19	6.31
1 year	6.50	6.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/26/91)	Currency Per U.S. $	Week Ago
Belgium	35.78	36.22
Canada	1.1497	1.1565
France	5.9100	5.9735
Germany	1.7345	1.7605
Italy	1296.70	1311.50
Japan	137.80	136.99
Mexico	3033.40	3030.20
Netherlands	1.9565	1.9835
South Korea	711.37	717.47
Switzerland	1.5160	1.5269
Taiwan	26.63	26.70
U.K.*	1.6935	1.6784

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (7/26/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.5	-10.2%

occur during recessions themselves.

In the wake of the four preceding recessions, for example, the "core" rate of consumer price inflation has averaged 5.9 percent during the first year of recovery, two full percentage points lower than the average rate of inflation prevailing during the year immediately prior to the business trough. If the bond market would shed its selective myopia toward each and every sign of economic brightening, and adopted a more discerning view, it might welcome the prospect of a business rebound and the inflation benefits to come, rather than mistakenly assume that price pressures will immediately resume.

In this environment, any sustained ascent of long-term interest rates would seem to run counter to likely inflation performance. To be sure, this does not mean that it won't happen, since the financial markets have to wrestle with an avalanche of new Treasury offerings for the foreseeable future. But, unless the interest rate structure drops in line with the ebbing of inflation, the deficit will be financed at increasingly attractive real interest rates. This implies that the enormous Federal credit appetite can be met without necessarily pushing long-term interest rates any higher for quite some time, especially if inflation behaves as it has in the past. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/24/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	257.020	- 1.044	+18.884
Loans to Depository Inst.	[illegible]	+ .043	- .512
Float	.353	- .056	- .464
Total Reserve Bank Credit	292.535	- 1.479	+13.766
Treasury Deposits with Federal Reserve Banks	6.033	- .612	+ .951
Currency in Circulation	292.895	- 1.421	+24.432
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	243.127	+ .175	+16.729
Member Bank Reserves:	7/24/91		
Total Reserves Held	50.404	- .861	- 8.633
Excess (Deficiency)	.886	- .003	+ .001
Net Free Reserves	.422	+ .129	+ .071
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (7/15/91)	857.5	+ 6.2	+ 5.9
M2 (7/15/91)	3,390.5	+ 0.7	+ 3.3
M3 (7/15/91)	4,153.3	- 2.1	+ 2.0
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/26/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.71%	5.93%	6.21%
* Federal Agencies	5.90	6.00	6.40
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.12
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.96	6.15	5.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.65%	Aug.	5.80%
15- 29 days	5.75	Sep.	5.80
30- 59 days	5.83	Oct.	5.80
60- 89 days	5.85	Nov.	5.80
90-179 days	5.70	Dec.	5.82
180-239 days	6.03	Jan.	5.87
240-270 days	6.05		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	5.84%		
90-120 days	5.87	Effective Rate	5.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91 n	$ 5,621	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91 n	$ 4,128	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91 n	+ 0.4	- 2.8	+ 0.4
Change in Consumer Prices*	Jun '91 n	2.4%	3.6%	7.2%
Change in MH Cost of Living Index*	Jun '91 n	6.0%	2.4%	7.2%
Change in Producer Prices*	Jun '91	- 3.6%	7.2%	0.0%
Civilian Employment (Thousands of Persons) †	Jun '91	116,884	116,591	118,237
Unemployment as % of Civilian Labor Force †	Jun '91	7.0%	6.9%	5.3%
Personal Income*	May '91	$ 4,779	$ 4,755	$ 4,621
Leading Indicators Composite Index (1967=100) †	May '91	143.1	142.0	146.0
Industrial Production Index (1977=100) †	Jun '91 n	106.9	106.2r	110.1
Net Change in Consumer Installment Credit †	May '91	- $ 0.63	$ 1.18	$ 1.78
U.S. Merchandise Trade Balance †	May '91 n	- $ 4.57	- $ 4.51r	- $ 8.15
Plant and Equipment Expenditures*	3rd Q'91	$ 553.5(a)	$ 544.2(a)	$ 534.9
Private Housing Starts (Thousands of Units)*	Jun '91 n	1,040	989r	1,187
New Construction Expenditures*	May '91	$ 403.1	$ 406.6	$ 451.1r
Total Business Inventories †	May '91 n	$ 812.5	$ 816.9r	$ 816.7r
Total Business Sales †	May '91 n	$ 536.4	$ 530.9r	$ 540.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

CHEMICALBANKING
Corporation

MANUFACTURERS
HANOVER

A peach of an idea for the Big Apple

(and fruitful for America, too).

Why not make a bank that would…

- Have 50% more branches than its nearest competitor in the New York metropolitan area;
- Have the largest market share of consumers, small businesses and mid-size companies in the New York metropolitan area;
- Rank first in primary banking relationships with U.S. corporations;
- Have 7 million credit card holders, ranking 6th in the nation;
- Be a world leader in corporate finance, foreign exchange trading, and interest rate and currency swaps, as well as the full range of operating services;
- Be able to invest in professional talent, technology and new products on a scale its predecessors could never approach;
- Be the second largest bank in America, with $135 billion in assets, $7.5 billion in shareholders' equity and $66 billion in core deposits;
- Be the leading corporate bank in Texas, through Texas Commerce Bancshares, with a significant share in the state's consumer banking market;
- Have 132 and 92 branches in the fast-growing New Jersey and Texas markets, respectively, providing a good head start on nationwide banking;
- Be able to compete head-on with any financial institution, anywhere in the world;
- Serve its customers better as a result of these strengths – offering more products, backed by the best technology, and much stronger competitive muscle?

That's why we're merging today's Chemical and Manufacturers Hanover. How could we resist such a peach of an idea?

John F. McGillicuddy
Chairman and CEO – Designate

Walter V. Shipley
President and COO – Designate

The new CHEMICALBANKING Corporation

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

P 5[illegible] 2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 16 Monday, August 12, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Inflation Surges In Western Germany

Growing fears on the part of both the Bundesbank and Bonn government about rapidly increasing inflation in Germany were confirmed again with the announcement that consumer prices jumped by almost a full percent in July alone. This brought the year-over-year inflation rate to 4.4 percent, up sharply from 3½ percent in June and 2.4 percent in July 1990, and the most since the 4.6 percent year-over-year inflation rate recorded in December 1982 (see chart).

Although part of the increase in last month's inflation rate can be attributed to such items as higher fuel and income taxes and telephone charges that were implemented on July 1 to help pay for German unification, other factors are to blame as well. Throughout this year, Bundesbank officials have repeatedly expressed their concerns about Bonn's growing borrowing needs, hefty pay settlements in both western and eastern Germany and the mark's weakness against most of the other major currencies.

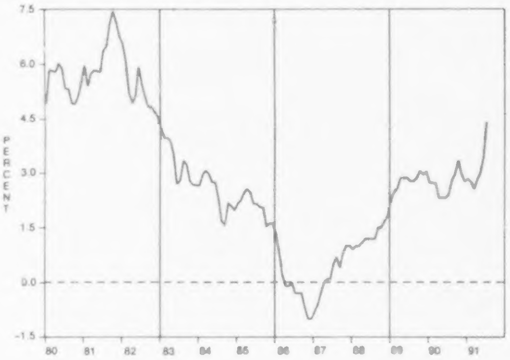
Last spring, for example, IG Metall, Germany's largest and most powerful labor union and the trendsetter for wage increases throughout the country, was granted a seven percent pay hike, well above the 2.8 percent inflation rate at the time. Other labor negotiations in western Germany are also being settled at around seven percent. As a result of rapidly rising wage increases, unit labor costs may well rise by about five percent this year, after increasing by two percent in 1990 and showing no growth in 1989 and 1988.

Manufacturers Hanover Economics Department 17/270

Price Pressures Plentiful

In addition to rapidly rising labor costs, Germany's expansionary fiscal policies have also added to price pressures this year. According to the Bundesbank's latest monthly bulletin, because of the higher-than-expected cost of rebuilding the five eastern states, Germany's public sector borrowing requirement is likely to rise to between 150 and 170 billion marks this year (equivalent to almost six percent of the German economy), up from around 93 billion marks in 1990. As recently as last November, the central bank had voiced its concerns that this year's public sector borrowing requirement would be as high as 140 billion marks.

12-MONTH PERCENT CHANGE
IN WESTERN GERMANY'S INFLATION RATE



Source: IMF

By raising the price of imports, the mark's weakness during most of this year has also contributed to inflation pressures in Germany. Undermined by political uncertainties in Eastern Europe and the Soviet Union, economic collapse in eastern Germany, the ballooning public sector deficit and Germany's sharply deteriorating trade performance, the mark had weakened to almost 1.84 marks per dollar last month, until the combination of several rounds of coordinated central bank intervention, disappointing news concerning the U.S. economic recovery and prospects of higher German interest rates prompted a seven percent appreciation of the German currency during the past few weeks.

Reflecting the huge investment needs to rebuild the eastern German economy and hefty demand for consumer goods, imports have surged this year, causing the country to record its first monthly trade deficits (in both April and May) since August 1981. Although June's trade balance returned to the black, the half-year trade surplus plunged to barely five billion marks from almost 67 billion marks in the first six months of 1990. What is more, after posting the largest current account surplus in the world last year, six straight months of red ink figures since January—to the tune of 20.1 billion marks—virtually ensure that Germany will record a current account deficit for the entire year, the first annual deficit since 1981. Although the trade

270 Park Avenue, New York, NY 10017

balance is expected to remain in surplus this year, the country's trade performance is deteriorating so rapidly that a deficit for 1991 cannot be ruled out. If Germany does post a trade deficit this year, it will be the first yearly dose of red ink since 1952.

Higher Interest Rates Are Likely

With the inflation rate surging, the public sector deficit ballooning and the current account balance firmly in the red, it is highly probable that the Bundesbank will tighten its monetary policy in the not too distant future, possibly as soon as the next council meeting on August 15. Bundesbank President Helmut Schlesinger has already hinted at a rise in the discount rate at least, pointing out the unusually wide gap between the official discount rate, currently at 6½ percent, and the market-influenced Lombard rate, now at nine percent. The financial and foreign exchange markets are expecting a half-point hike in the discount rate, while a full percentage point increase in the discount rate and a half-point increase in the Lombard rate is possible.

For one thing, the Bundesbank has already made known the upper limits of its "comfort zone": An inflation rate of below four percent, a public sector borrowing requirement of 140

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/24/91)	188,978	- 251	- 25,259
New York City (7/31/91)	31,832	- 663	- 7,785
Commercial Paper (7/31/91)	541,130	+ 2,108	- 1,779

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/24/91)	302,573	- 1,529	- 17,057
New York City (7/31/91)	54,217	- 231	- 4,252

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/24/91)	1,020,035	- 3,804	+ 6,739
New York City (7/31/91)	171,467	+ 912	- 16,177

Financial Markets

	Friday 8/9/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.45%	- .16	- 2.30
180-Day Bills†	5.60	- .19	- 2.18
Longest Bills†	5.76	- .25	- 2.01
Recent Issues:			
6⅞s 7/31/93	6.44	- .23	
7⅞s 7/31/96	7.50	- .12	
7⅞s 8/15/01 (When Issued)	7.97	NA	
8⅛s 8/15/21 (When Issued)	8.22	NA	
Municipals:			
Bond Buyer—20 Bond Index* (8/8/91)	6.94%	- .05	- .21
Blue List Total ($ Million)	$ 980	- $ 373	- $ 134
30-Day Visible Supply ($ Million)	$3,946	- $1,431	+ $2,630
Total	$4,926	- $1,804	+ $2,496
Corporates:			
Moody's Aa Composite (8/8/91)	9.07%	- .12	- .39
30-Day Visible Supply ($ Million)	$1,480	+ $955	+ $1,230
Stocks:			
Dow-Jones Averages:			
Industrials	2,996.20	- 10.06	+ 97.68
Transportation	1,213.68	- 9.52	+ 79.01
Utilities	203.18	+ .40	- .17
65 Stocks	1,069.11	- 4.33	+ 41.83
N.Y.S.E. Composite Index	212.17	+ .14	+ 18.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	155,855	- 4,707	- 16,115

*34% Taxable equivalent 10.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/9/91	Week Ago
Overnight	5.69%	5.75%
1 month	5.63	5.81
3 month	5.63	5.81
6 month	5.94	6.00
1 year	6.06	6.31

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/9/91)	Currency Per U.S. $	Week Ago
Belgium	35.589	36.00
Canada	1.1473	1.1506
France	5.8785	5.9335
Germany	1.7290	1.7440
Italy	1293.00	1304.80
Japan	136.50	137.87
Mexico	3039.00	3036.20
Netherlands	1.9480	1.9675
South Korea	715.01	712.75
Switzerland	1.5148	1.5210
Taiwan	26.48	26.53
U.K.*	1.6940	1.6851

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (8/9/91) (Adjusted for Inflation)	-0.4%	-10.3%

billion marks, and annual wage increases of under six percent. With all of these targets now widely overshot, it appears that the central bank will have to raise interest rates, if only to preserve its credibility. Indeed, it is widely believed that the Bundesbank didn't raise rates at its last council meeting only because it didn't want to embarrass the Bonn government before last month's G-7 summit meeting, with such countries as Great Britain and France so keen to lower theirs.

For another, because an increase in official German interest rates is already expected in the foreign exchange markets, a failure to tighten monetary policy may cause traders to question the Bundesbank's resolve and thus place substantial downward pressure on the mark. This, in turn, would only add to inflation pressures in Germany. And, finally, with wages soaring in both the western and eastern parts of the country, the central bank will want to give a warning to both labor unions and employers in order to set the right climate for Germany's next wage round. However, given the mark's vulnerability to Germany's economic problems and the political uncertainties in the Soviet Union and Eastern Europe, any boost to the German currency from a hike in the Bundesbank's key interest rates may be only temporary. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/7/91	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	257.145	+ 1.668	+16.769
Loans to Depository Inst.	1.203	+ .622	+ .300
Float	.216	- .409	- .846
Total Reserve Bank Credit	293.804	+ 2.240	+12.222
Treasury Deposits with Federal Reserve Banks	5.808	- .663	+ .045
Currency in Circulation	293.365	+ 1.079	+23.792
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	243.747	- 1.412	+13.136
Member Bank Reserves:	8/7/91		
Total Reserves Held	50.261	- .168	- 8.60
Excess (Deficiency)	.830	- .106	+ .074
Net Free Reserves	.026	- .445	- .241
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (7/29/91)	864.4	+ 8.6	+ 6.3
M2 (7/29/91)	3,385.1	+ 0.2	+ 3.2
M3 (7/29/91)	4,145.9	- 2.6	+ 1.9
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/9/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.34%	5.38%	5.46%
* Federal Agencies	5.96	6.40	6.40
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.12
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.65	5.82	5.95

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.50%	Sep.	5.53%
15- 29 days	5.50	Oct.	5.53
30- 59 days	5.55	Nov.	5.53
60- 89 days	5.55	Dec.	5.54
90-179 days	5.49	Jan.	5.55
180-239 days	5.57	Feb.	5.53
240-270 days	5.57		

‡ Industrial Paper–Prime			
30- 89 days	5.64%	†Federal Funds	
90-120 days	5.60	Effective Rate	5.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,620	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,128	$ [illegible]124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	+ 0.4	- 2.8	+ 0.4
Change in Consumer Prices*	Jun '91	2.4%	3.6%	7.2%
Change in MH Cost of Living Index*	Jun '91	6.0%	2.4%	7.2%
Change in Producer Prices*	Jul '91 n	- 2.4%	- 3.6%	+ 3.6%
Civilian Employment (Thousands of Persons) †	Jul '91 n	116,712	116,884	117,882
Unemployment as % of Civilian Labor Force †	Jul '91 n	6.8%	7.0%	5.5%
Personal Income*	Jun '91 n	$ 4,803	$ 4,780r	$ 4,641
Leading Indicators Composite Index (1967=100) †	Jun '91 n	143.6	142.9r	146.2
Industrial Production Index (1977=100) †	Jun '91	106.9	106.2	110.1
Net Change in Consumer Installment Credit †	Jun '91 n	- $ 1.83	- $ 1.33r	+$ 0.77
U.S. Merchandise Trade Balance †	May '91	- $ 4.57	- $ 4.51	- $ 8.15
Plant and Equipment Expenditures*	3rd Q'91	$ 553.5(a)	$ 544.2(a)	$ 534.9
Private Housing Starts (Thousands of Units)*	Jun '91	1,040	989	1,187
New Construction Expenditures*	Jun '91 n	$ 400.3	$ 399.2r	$ 450.4
Total Business Inventories †	May '91	$ 812.5	$ 816.9	$ 816.7
Total Business Sales †	May '91	$ 536.4	$ 530.9	$ 540.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

CHEMICALBANKING
Corporation

MANUFACTURERS HANOVER

A peach of an idea for the Big Apple

(and fruitful for America, too).

Why not make a bank that would…

- Have 50% more branches than its nearest competitor in the New York metropolitan area
- Have the largest market share of consumers, small businesses and mid-size companies in the New York metropolitan area
- Rank first in primary banking relationships with U.S. corporations
- Have 7 million credit card holders, ranking 6th in the nation
- Be a world leader in corporate finance, foreign exchange trading, and interest rate and currency swaps, as well as the full range of operating services
- Be able to invest in professional talent, technology and new products on a scale its predecessors could never approach
- Be the second largest bank in America, with $135 billion in assets, $7.5 billion in shareholders' equity and $66 billion in core deposits
- Be the leading corporate bank in Texas through Texas Commerce Bancshares, with a significant share in the state's consumer banking market
- Have 132 and 92 branches in the fast-growing New Jersey and Texas markets, respectively, providing a good head start on nationwide banking
- Be able to compete head-on with any financial institution, anywhere in the world
- Serve its customers better as a result of these strengths – offering more products, backed by the best technology and much stronger competitive muscle?

That's why we're merging today's Chemical and Manufacturers Hanover. How could we resist such a peach of an idea?

John F. McGillicuddy
Chairman and C.E.O. - Designate

Walter V. Shipley
President and C.E.O. - Designate

A2

The new **CHEMICALBANKING** Corporation

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 17 Monday, August 26, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

A Murky Employment Picture

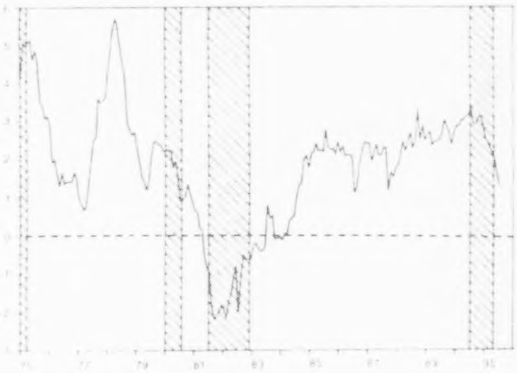
While the likelihood of a strong business rebound from the nation's ninth postwar recession is questionable at best, the decline in nonfarm payroll employment in June and July is being viewed by the more pessimistic pundits of economic trends as a harbinger of a double-dip recession—in other words, two distinct periods of economic contraction interrupted by last spring's flurry of business activity. Even the Federal Reserve deemed it necessary to respond to the threat, loosening the credit reins in early August and reducing the Federal funds rate to 5½ percent, its lowest level in 14 years.

However, notwithstanding the disappointing job numbers of recent months, their impact on the sustainability of this business recovery should not be exaggerated. Mixed economic statistics are typical at this stage of the business cycle, employment setbacks have occurred during the earliest phases of past recoveries and some longer-term impediments currently stand in the way of a quick return to healthy labor market conditions. What is more, numerous other indicators point in the recovery direction.

To be sure, the employment picture remains murky. According to the Labor Department, nonfarm payroll jobs fell by 51,000 last month, continuing a decline which began in June, and marking the twelfth time in the past 13 months in which payroll employment has eased. Employment declines were widespread, affecting both the goods-producing industries, especially construction, as well as service-producing jobs, notably government payrolls. And, while the unemployment rate dipped slightly in July, this was hardly cause for too much optimism. The decline in the jobless rate was heavily influenced by the fact that a sizable number of unemployed women gave up looking for work, and thus dropped out of the labor force, rather than found new jobs.

It would be premature, however, to conclude that these developments mark the death-knell of the current recovery. For one thing, today's weakness in the labor market is not particularly unusual when viewed in cyclical perspective. Although employment increases often coincide with the initial stages of recovery, especially in service industries, they don't always. In fact, in the relatively recent past, the exceptions have become the rule, and payroll employment has tended to trail slightly the turning point in the business cycle. Monthly payroll declines were posted after the trough of both the 1973-75 and 1981-82 recessions; in each instance, about three months elapsed before a sustained upturn in the payroll numbers occurred. While the drop in payroll employment in two of the past three months is disappointing, it is not unusual.

12-MONTH PERCENT CHANGE IN STATE AND LOCAL GOVERNMENT EMPLOYMENT



Source: Bureau of Labor Statistics

Longer-Run Clouds

For another, past performance may not be much of a guide to payroll trends this time around. Several longer-term influences seem to be at work impeding the recovery of the labor market. The most obvious of these is the trend toward corporate downsizing. In sharp contrast with the growth-oriented 1980s, the 1990s have given way to a period of retrenchment. Throughout corporate America, rigorous cost controls are being put into place, and trimming the number of employees is one of the quickest methods of achieving savings objectives. According to a recent survey conducted by the American Management Association, corporate downsizing ran at a record pace during the past year, with 56 percent of the 910 companies questioned reporting job cuts. Not surprisingly, the axe fell the hardest on middle managers, retailing was a particularly hard-hit industry, and New England fared the worst regionally. Nor is the outlook much better. A large chunk of surveyed firms anticipate additional cuts to come.

270 Park Avenue, New York, NY 10017

The private sector is not the only one paying penance for its sometimes bloated growth in the 1980s. So, too, is the public sector, especially in the state and municipal areas. With numerous state and local governments facing a severe financial squeeze, public employee layoffs are becoming commonplace. During the first seven months of this year, for example, 23 states have trimmed their payrolls, with the biggest job cuts occurring in New York. As shown in the chart, this trend has already sliced the growth rate of state and local government employment sharply compared with the period immediately preceding the recession, and is also having a disproportionately large impact on the monthly employment numbers. Although state and local government jobs comprise some 14 percent of total payroll jobs, public employee layoffs have accounted for nearly one-third of the 72,000 jobs lost in June and July.

Public and private sector downsizing has spawned the growing use of either temporary, or part-time help. Both decidedly lower the employer cost of labor—in the former instance the cost of benefits and, in the latter, direct compensation costs. Demand for temporary help is especially robust in the health-care and technical fields, as is that for people with clerical

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (8/7/91)	188,443	+ 540	- 25,096
New York City (8/14/91)	31,754	- 531	- 7,874
Commercial Paper (8/14/91)	533,376	- 3,798	- 6,222

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (8/7/91)	301,981	- 1,628	- 18,001
New York City (8/14/91)	53,646	- 247	- 5,817

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Year Ago
Nationwide (8/7/91)	1,021,880	- 2,704	- 1,358
New York City (8/14/91)	168,815	- 1,616	- 21,364

Financial Markets

	Friday 8/23/91	Change Since Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.53%	+ .15	- 2.10
180-Day Bills†	5.69	+ .17	- 1.97
Longest Bills†	5.81	+ .19	- 1.86
Recent Issues:			
6⅞s 7/31/93	6.40	+ .12	
7⅞s 7/31/96	7.35	+ .05	
7⅞s 8/15/01	7.87	+ .04	
8⅛s 8/15/21	8.13	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (8/22/91)	6.86%	- .02	- .36
Blue List Total ($ Million)	$1,384	+ $410	+ $244
30-Day Visible Supply ($ Million)	$1,552	- $607	- $247
Total	$2,936	- $197	- $ 3
Corporates:			
Moody's Aa Composite (8/22/91)	8.92%	- .02	- .64
30-Day Visible Supply ($ Million)	$ 655	- $190	- $495
Stocks:			
Dow-Jones Averages:			
Industrials	3,040.25	+ 72.23	+324.66
Transportation	1,215.44	+ 25.03	+240.62
Utilities	206.00	+ 3.26	+ 2.91
65 Stocks	1,080.56	+ 23.49	+131.67
N.Y.S.E. Composite Index	215.75	+ 4.13	+ 31.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	201,340	+ 18,194	+ 8,377

*34% Taxable equivalent 10.39%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/23/91	Week Ago
Overnight	5.56%	5.63%
1 month	5.63	5.63
3 month	5.63	5.63
6 month	5.81	5.75
1 year	6.00	6.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/23/91)	Currency Per U.S. $	Week Ago
Belgium	36.00	36.19
Canada	1.1438	1.1442
France	5.9545	5.9720
Germany	1.7526	1.7540
Italy	1311.00	1315.00
Japan	137.20	136.95
Mexico	3044.20	3041.40
Netherlands	1.9755	1.9772
South Korea	716.88	720.04
Switzerland	1.5333	1.5325
Taiwan	26.42	26.42
U.K.*	1.6731	1.6680

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/23/91) (Adjusted for Inflation)	Change Since Week Ago	2/27/85
	-0.1%	-9.9%

skills. But, many of these jobs may be part-time as well, often to the chagrin of the employee. While the number of people voluntarily working part-time has contracted over the past year, the number who find themselves involuntarily working short hours has soared by over 20 percent.

Subpar Recovery Proceeds

The longer-run clouds hovering over the labor market will continue to extract a toll from the economy, sapping consumer confidence and suppressing income growth if nothing else. But, this price has been paid for quite some time, during most of which the economy was expanding. And, it seems to be doing so again, with numerous indicators signaling recovery. Initial claims for state jobless benefits are down more than 20 percent from their peak, retail sales have increased for three straight months and, during the May-July period, ran at an annual rate some five percent higher than during the immediately preceding three months, housing starts and auto sales are running well above their recession lows and industrial output has risen at a 7.4 percent annual rate since the economy bottomed. All in all, despite recent employment setbacks, the economy proceeds on the recovery track—subpar, to be sure, but not far from original expectations.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/21/91	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	258.311	+ .468	+16.627
Loans to Depository Inst.	.757	+ .154	- .835
Float	.589	+ .154	+ .462
Total Reserve Bank Credit	292.177	- 1.263	+10.272
Treasury Deposits with Federal Reserve Banks	5.138	- .890	.363
Currency in Circulation	294.004	- .245	+23.159
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.144	+ 1.252	+15.439
Member Bank Reserves:	8/21/91		
Total Reserves Held	50.946	+ .673	- 8.854
Excess (Deficiency)	1.055	+ .172	+ .151
Net Free Reserves	.457	+ .378	+ .639

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	Year Ago
M1 (8/12/91)	862.4	+ 8.5	+ 6.5
M2 (8/12/91)	3,384.8	- 0.2	+ 3.0
M3 (8/12/91)	4,144.9	- 2.4	+ 1.7
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted

* Seasonally adjusted annual rate

‡ Four-week moving average

New York Money Market

Offering Rates 8/23/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.38%	5.45%	5.48%
* Federal Agencies	5.60	5.55	5.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.75	5.85	5.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.52%	Sep.	5.60%
15- 29 days	5.53	Oct.	5.60
30- 59 days	5.51	Nov.	5.60
60- 89 days	5.50	Dec.	5.55
90-179 days	5.48	Jan.	5.55
180-239 days	5.55	Feb.	5.55
240-270 days	5.55		

‡ Industrial Paper–Prime			
30- 89 days	5.50%	† Federal Funds	
90-120 days	5.50	Effective Rate	5.38%

‡ Discount basis

*Subject to availability

† Estimated

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q 91	$ 5,620	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q 91	$ 4,128	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q 91	+ 0.4	- 2.8	+ 0.4
Change in Consumer Prices*	Jul 91 n	2.4%	2.4%	4.8%
Change in MH Cost of Living Index*	Jul 91 n	1.2%	6.0%	6.0%
Change in Producer Prices*	Jul 91	2.4%	- 3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Jul 91	116,712	116,884	117,882
Unemployment as % of Civilian Labor Force †	Jul 91	6.8%	7.0%	5.5%
Personal Income*	Jun 91	$ 4,803	$ 4,780	$ 4,641
Leading Indicators Composite Index (1967=100) †	Jun 91	143.6	142.9	146.2
Industrial Production Index (1977=100) †	Jul 91 n	107.6	107.1r	110.4
Net Change in Consumer Installment Credit †	Jun 91	$ 1.83	- $ 1.33	+$ 0.77
U.S. Merchandise Trade Balance †	Jun 91 n	$ 4.02	- $ 4.79r	- $ 6.33
Plant and Equipment Expenditures*	3rd Q 91	$ 553.5(a)	$ 544.2(a)	$ 534.9
Private Housing Starts (Thousands of Units)*	Jul 91 n	1,070	1,032r	1,155
New Construction Expenditures*	Jun 91	$ 400.3	$ 399.2	$ 450.4
Total Business Inventories †	Jun 91 n	$ 808.9	$ 811.7r	$ 813.1r
Total Business Sales †	Jun 91 n	$ 536.9	$ 535.9r	$ 544.6r

*Seasonally adjusted annual rate

† Seasonally adjusted

n-Newly reported figure

r-Revised

a-Anticipated

Only New York has 52 Tie Manufacturers,
279 Health Clubs,
987 Ad Agencies,
and 1,668 Dry Cleaners.
1239
1238
1237
1236
1235
WE ♥ OUR CUSTOMERS

And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (PC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand in hand with every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC. © [illegible] Manufacturers Hanover

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

```
00463000024182 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN   SRI
4520 EAST-WEST HWY
BETESDA, MD 20814
```

Financial Digest

B 5 [illegible] 2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 18

Monday, September 9, 1991

Analysis of Business Trends Plus Selected Financial Indicators

The Robust Canadian Dollar

At the end of last year, when foreign exchange analysts were making their currency projections for this year, most forecasters believed that the Canadian dollar would trend lower against its U.S. counterpart throughout 1991. Declining interest rates, as well as Canada's economic and political problems, were supposed to place downward pressure on the Canadian dollar. Yet Canada's currency has withstood a sharp narrowing in Canadian-U.S. interest rate differentials, a longer and deeper recession in Canada than in the United States, renewed separatist sentiment in Quebec and a plunge in Prime Minister Brian Mulroney's popularity due to Canada's economic and political problems. However, instead of depreciating, the Canadian dollar has traded on a generally upward trend this year, appreciating from C$1.16/US$ in early January to its current level of around C$1.14/US$.

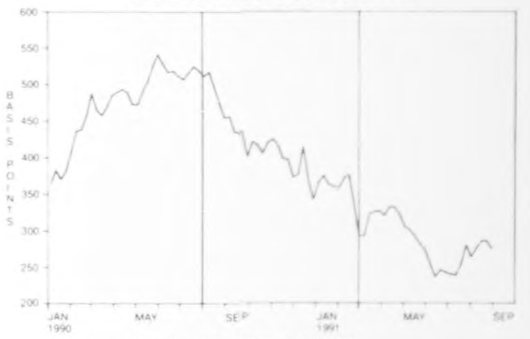
High Yields Lure Investors

The major reason for the Canadian dollar's current strength is that, despite a sharp decline in interest rates since June 1990, it is still regarded as a high-yielding currency. Although recessions prompted both the Bank of Canada and the Federal Reserve to loosen their monetary reins, yields are still higher in Canada than in the United States. Since June 1990, short-term Canadian interest rates have declined by over 500 basis points, bringing the bank rate, the Bank of Canada's key instrument for steering monetary policy, from a peak of 14.05 percent to 8.78 percent. However, while Canadian-U.S. interest rate spreads have narrowed from a record 550 basis points a year ago, yields in Canada are still around 275 basis points higher than they are here. In fact, differentials have begun to widen again and are expected to widen even further—due to a more cautious easing of monetary policy by the Bank of Canada than by the Federal Reserve since June, reflecting a relatively stronger economic recovery in Canada than in the United States at the moment (see chart).

Manufacturers Hanover Economics Department 17/270

Another reason for investor attraction to the Canadian dollar is the Bank of Canada's firm commitment to its inflation rate targets. Indeed, the central bank recently proved that it would not allow a weakening currency to threaten its inflation goals. When allegations of bribery and fraud against high-level Conservative Party politicians sparked a selloff of the Canadian dollar a few weeks ago—it dropped from C$1.1460/US$ to nearly C$1.1640/US$ in a matter of days—the Bank of Canada acted swiftly and decisively to stabilize the currency. Not only did it intervene heavily in the foreign exchange markets, but the central bank also forced market interest rates higher and raised the bank rate.

WEEKLY SPREAD BETWEEN
3-MONTH EURO-CANADIAN DOLLAR RATE
AND 3-MONTH EURO-US DOLLAR RATE



Sources: International Monetary Fund, MH

The Bank of Canada's aggressive moves reassured the markets about its strong commitment to price stability, thereby restoring investor confidence in the Canadian dollar. As a result, the currency quickly appreciated to pre-selloff levels and the Bank of Canada resumed its monetary easing.

Hefty capital flows into Canada have also supported the Canadian dollar this year. Lured by prospects of high yields, low inflation and a strong currency, foreigners are expected to purchase a record amount of Canadian bonds in 1991, breaking the previous record of C$22.54 billion set in 1986. In the first five months of this year, foreigners purchased C$13.42 billion of Canadian bonds, compared with C$2.6 billion in the same year earlier period.

Economic Prospects Brighten

Canada's brightening economic outlook should continue to give the Canadian dollar an upward bias in the months ahead. Positive GDP growth

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

in the second quarter seems to indicate that Canada's recession ended in March, although economic recovery will be modest at best this year. While the automobile and housing sectors have benefitted from the sharp decline in interest rates, consumers are still struggling with hefty debt loads, new taxes and high unemployment. The rate of unemployment is at a six-year high of 10½ percent and is expected to stay above ten percent until late 1992. Economic recovery in Canada this year will also be restrained by even slower growth in the United States, the market for some three-fourths of Canada's foreign sales. Although Canada's GDP is expected to contract slightly for the entire year 1991, falling interest rates and a modest recovery in the United States should enable Canada to post a real economic growth rate of around three percent in 1992.

While the cost has been high in terms of lost output and jobs, the Bank of Canada does seem to be winning the battle against inflation. Although the year-over-year inflation rate is relatively high at the moment—5.8 percent in July—due to the seven percent Goods and Services Tax (GST) that was introduced in January, it should decelerate to below four percent by early next year when the effects of the GST drop out of the yearly comparison, and to three

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/21/91)	186,737	- 376	- 26,189
New York City (8/28/91)	30,592	- 813	- 7,525
Commercial Paper (8/28/91)	534,473	- 2,395	- 11,282

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/21/91)	299,827	- 121	- 20,100
New York City (8/28/91)	53,854	- 81	- 4,433

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/21/91)	1,021,037	+ 1,109	- 5,013
New York City (8/28/91)	170,836	+ 91	- 12,523

Financial Markets

	Friday 9/6/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.43%	- .03	- 2.19
180-Day Bills†	5.53	- .03	- 2.19
Longest Bills†	5.62	- .09	- 2.12
Recent Issues:			
6⅜s 8/31/93	6.24	- .09	
7¼s 8/31/96	7.23	- .11	
7⅞s 8/15/01	7.76	- .05	
8⅛s 8/15/21	8.02	- .04	
Municipals:			
Bond Buyer—20 Bond Index* (9/5/91)	6.86%	+ .01	- .55
Blue List Total ($ Million)	$1,158	- $ 238	+ $352
30-Day Visible Supply ($ Million)	$2,951	+ $1,660	- $282
Total	$4,109	+ $1,422	+ $ 70
Corporates:			
Moody's Aa Composite (9/5/91)	8.94%	+ .04	- .77
30-Day Visible Supply ($ Million)	$ 805	-0-	+ $530
Stocks:			
Dow-Jones Averages:			
Industrials	3,011.63	- 31.97	+392.08
Transportation	1,175.08	- 37.19	+266.80
Utilities	206.25	- 2.00	+ 5.35
65 Stocks	1,064.52	- 17.54	+154.06
N.Y.S.E. Composite Index	213.51	- 3.18	+ 36.00
N.Y.S.E. Avg. Daily Vol. for Week (000's)	159,905	+ 16,321	+44,027

*34% Taxable equivalent 10.39%.

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/6/91	Week Ago
Overnight	5.63%	5.44%
1 month	5.63	5.56
3 month	5.63	5.56
6 month	5.75	5.69
1 year	6.00	5.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/6/91)	Currency Per U.S. $	Week Ago
Belgium	35.73	35.83
Canada	1.1406	1.1418
France	5.8960	5.9235
Germany	1.7362	1.7438
Italy	1295.00	1300.00
Japan	136.21	136.93
Mexico	3049.40	3047.00
Netherlands	1.9540	1.9631
South Korea	725.06	719.94
Switzerland	1.5260	1.5238
Taiwan	26.18	26.42
U.K.*	1.6940	1.6845

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/6/91) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	-0.2%	-10.2%

percent by the end of 1992.

On the fiscal front, while rising unemployment benefits outlays and shrinking tax revenues have frustrated the government's efforts to reduce its budget deficit over the past few years, fiscal tightening is expected to resume in 1992, provided that economic recovery gathers momentum. As a result, the government's financial deficit, which will approach five percent of GDP this year, should narrow to around 3½ percent of GDP in 1992.

And finally, although the strong Canadian dollar and recession in the United States caused Canadian exports to slip by almost four percent in the first half of this year from a year ago, Canada's even deeper recession resulted in a heftier five percent drop in imports. This widened the half-year trade surplus to C$5.6 billion from $5 billion in the same 1990 period. For the entire year, Canada should post a trade surplus of around C$12 billion, up from C$10.9 billion in 1990. As a result, the current account deficit is expected to narrow to around C$20 billion this year from C$22 billion in 1990. Thus, with improving economic fundamentals, relatively high interest rates and strong capital inflows, the Canadian dollar should maintain an upward bias in the months ahead.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/4/91	**$ Change Since Week Ago**	**$ Change Since Year Ago**
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	263.956	+ 4.269	+19.866
Loans to Depository Inst.	.829	+ .069	+ .064
Float	.215	- .099	+ .053
Total Reserve Bank Credit	296.369	+ 4.542	+11.409
Treasury Deposits with Federal Reserve Banks	6.260	+ 1.064	+ .892
Currency in Circulation	295.139	+ 1.712	+22.029
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.111	- 2.552	+13.875
Member Bank Reserves:	**9/4/91**		
Total Reserves Held	50.391	- .583	- 8.227
Excess (Deficiency)	1.346	+ .289	+ .453
Net Free Reserves	.557	+ .098	+ .294
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (8/26/91)	869.9	+ 6.9	+ 6.3
M2 (8/26/91)	3,397.4	- 0.5	+ 2.7
M3 (8/26/91)	4,151.9	- 2.6	+ 1.4
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/6/91	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	5.41%	5.54%	5.62%
* Federal Agencies	5.55	5.50	5.75
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	6.97
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.65	5.75	5.90

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.53%	Oct.	5.54%
15- 29 days	5.50	Nov.	5.55
30- 59 days	5.55	Dec.	5.57
60- 89 days	5.50	Jan.	5.59
90-179 days	5.53	Feb.	5.56
180-239 days	5.60	Mar.	5.57
240-270 days	5.60		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	5.55%		
90-120 days	5.53	Effective Rate	5.44%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

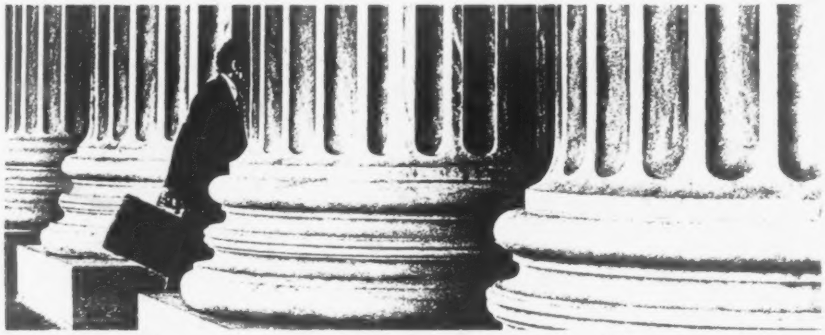
(All Dollar Figures in Billions)

	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,616r	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,123r	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.1r	- 2.8	+ 0.4
Change in Consumer Prices*	Jul 91	2.4%	2.4%	4.8%
Change in MH Cost of Living Index*	Jul 91	1.2%	6.0%	6.0%
Change in Producer Prices*	Jul 91	- 2.4%	- 3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Aug 91 n	116,416	116,712	117,690
Unemployment as % of Civilian Labor Force †	Aug 91 n	6.8%	6.8%	5.6%
Personal Income*	Jul 91 n	$ 4,808	$ 4,813r	$ 4,663
Leading Indicators Composite Index (1967=100) †	Jul 91 n	145.4	143.7r	146.2
Industrial Production Index (1977=100) †	Jul 91	107.6	107.1	110.4
Net Change in Consumer Installment Credit †	Jun 91	$ 1.83	- $ 1.33	+ $ 0.77
U.S. Merchandise Trade Balance †	Jun 91	- $ 4.02	- $ 4.79	- $ 6.33
Plant and Equipment Expenditures*	4th Q 91 n	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Jul 91	1,070	1,032	1,155
New Construction Expenditures*	Jul 91 n	$ 404.9	$ 398.7r	$ 453.1
Total Business Inventories †	Jun 91	$ 808.9	$ 811.7	$ 813.1
Total Business Sales †	Jun 91	$ 536.9	$ 535.9	$ 544.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

We exceeded these standards 2 years ago.

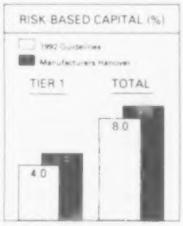
At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.

Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.



© 1991 Manufacturers Hanover Trust Company

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 332 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SPI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

R5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 19
Monday, September 23, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

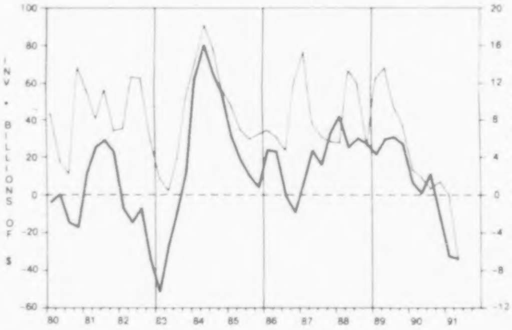
Pushing On A String?

Although the Federal Reserve's latest easing of monetary policy should provide a modest fillip for the sluggish business recovery now underway, the benefits of another one-quarter percentage point reduction in the Federal funds rate should not be exaggerated. For with today's business rebound threatened by such persistent impediments as a cautious, and employment-wary consumer, a nagging credit crunch, lethargic money supply growth and an acute financial pinch plaguing numerous state and local governments, small, carefully-measured doses of monetary relief may not be the panacea for an ailing economy that they have been in the past. Indeed, the Fed has already pushed the funds rate 4½ percentage points lower over the past two years with an almost imperceptible impact, a result which raises deep-seated doubts as to whether or not the central bank finds itself "pushing on a string", using traditional remedies in an altogether different economic environment.

To be sure, the most recent batch of economic statistics suggests that the economy could use a bit of resuscitation. Although the basic framework of a modest manufacturing-led rebound is still intact, a good chunk of the rest of the economic landscape remains littered with the remnants of the past recession. Payroll employment growth was anemic last month, automobile sales buckled in August compared with July levels, housing starts and sales have exhibited little strength since last spring's spurt and even the rate of rise in industrial output, around which today's rebound pivots, slowed in August. On top of all this, the upturn in consumer confidence has plateaued, a hardly surprising development in light of the vigorous cost-cutting underway throughout corporate America, mounting layoffs in several large service industries and the weak pace of personal income growth.

While these trends do not by themselves indicate that the economy is about to again lapse into recession, they certainly do raise the specter of such an occurrence. But, the beneficial impact of further interest rate reductions may be muted. Take, for example, the consumer. When interest rates drop, almost all attention centers upon whether rates are now sufficiently low to prompt households to quicken their purchases of such items as automobiles, homes and furniture, or whether the amount of interest expense relief will bolster the confidence of a debt-burdened consumer.

NOMINAL INVENTORIES (THICK) VS. C & I LOANS (THIN)
(2-QUARTER AVERAGE CHANGE)



Sources: Commerce Department; Federal Reserve Board

Questionable Impact Of Lower Rates

However, lower interest rates cut two ways. Since households actually earn more than twice as much interest income as they pay out in interest expense, and the proportion of personal income derived from interest receipts stands at a near record, the downdraft in interest rates hurts as well as helps, hitting the consumer right in the wallet (Financial Digest—June 17, 1991). Nor is it a foregone conclusion that in today's economic environment consumers even have the inclination to step up borrowing and take advantage of lower interest rates. Layoffs have become commonplace throughout many industries, and job security is problematic for a growing number of households.

Equally uncertain are the effects of lower interest rates on business. The prevailing wisdom is that reduced borrowing costs will spark an upswing in business loan demand, fueling spending on inventories, equipment and jobs. But, the companion assumption is that lenders will be prepared to extend new credit, and herein lies the rub. Although interest rates have taken a dive, and total bank reserves—the wherewithal to lend—are now expanding at their fastest clip in four years, a principal feature of the current financial environment is the lethargic pace of short-term business borrowings and the ongoing run-off of commercial and industrial loans. These loans have shriveled by six

270 Park Avenue, New York, NY 10017

percent over the past year, and the contraction of bank lending is being pointed to as the unmistakable footprint of an economy-hobbling credit "crunch".

One straightforward reason for the slowdown in business loan demand is better inventory management. Aided by the extensive use of computers, companies simply do not require excessive stocks on hand, nor the need to finance them. As shown in the chart, the easing of commercial and industrial loans outstanding closely coincides with the paring of inventories. In this sense, business efficiency has been enhanced, a clear plus for the economy. On the other hand, the dearth of credit available to some segments of the economy is more troubling, and the remedy so far elusive.

Borrowing Blues

Credit crunch conditions in the past typically arose during periods of rising interest rates. Since deposit ceilings prevented banks from remaining yield competitive with investments outside the banking sector, the subsequent loss of funds resulted in tighter lending conditions. As interest rates declined, deposits returned to the banks and credit became more abundant. This time around, lower interest rates have done little to ameliorate credit tightness. This is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/4/91)	184,220	- 1,038	- 26,940
New York City (9/11/91)	29,984	- 872	- 7,601
Commercial Paper (9/11/91)	528,692	+ 2,229	- 21,247

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/4/91)	299,868	+ 970	- 18,009
New York City (9/11/91)	53,881	- 682	- 4,480

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/4/91)	1,017,763	+ 2,601	- 7,396
New York City (9/11/91)	168,390	- 3,495	- 14,347

Financial Markets

	Friday 9/20/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.31 %	+ .02	- 2.27
180-Day Bills†	5.44	+ .04	- 2.29
Longest Bills†	5.54	+ .04	- 2.21
Recent Issues:			
6⅜s 8/31/93	6.12	–0–	
7¼s 8/31/96	7.07	- .02	
7⅞s 8/15/01	7.57	- .07	
8⅛s 8/15/21	7.89	- .05	
Municipals:			
Bond Buyer—20 Bond Index* (9/19/91)	6.78%	+ .03	- .63
Blue List Total ($ Million)	$1,383	+ $ 301	+$ 171
30-Day Visible Supply ($ Million)	$3,737	+ $ 958	+$2,020
Total	$5,120	+ $1,259	+$2,191
Corporates:			
Moody's Aa Composite (9/19/91)	8.85%	- .02	- .90
30-Day Visible Supply ($ Million)	$ 615	- $ 660	- $ 597
Stocks:			
Dow-Jones Averages:			
Industrials	3,019.23	+ 33.54	+506.85
Transportation	1,187.24	+ 4.59	+310.94
Utilities	208.18	+ 1.68	+ 6.47
65 Stocks	1,070.61	+ 9.22	+188.93
N.Y.S.E. Composite Index	212.98	+ 2.40	+ 41.95
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,848	+ 41,124	+37,458

*34% Taxable equivalent 10.27%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/20/91	Week Ago
Overnight	5.25%	5.25%
1 month	5.44	5.38
3 month	5.44	5.44
6 month	5.63	5.56
1 year	5.81	5.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/20/91)	Currency Per U.S. $	Week Ago
Belgium	34.93	34.70
Canada	1.1355	1.1357
France	5.7750	5.7350
Germany	1.6962	1.6826
Italy	1268.50	1260.20
Japan	134.75	133.73
Mexico	3055.40	3052.60
Netherlands	1.9105	1.8975
South Korea	723.68	726.24
Switzerland	1.4813	1.4749
Taiwan	26.32	26.26
U.K.*	1.7236	1.7335

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/20/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.3%	-10.9%

because today's crunch results not from a drain of bank deposits, but by the pinch on bank capital due to past lending mistakes. Since this is taking place at precisely the same time that bank regulators are imposing stricter capital standards, and bank earnings are squeezed, asset shrinkage has become the quickest path for repairing bank capital ratios.

Two noteworthy casualties have resulted from the capital/credit crunch. The first is employment. Since tighter credit has fallen the hardest on small- and medium-sized businesses which account for nearly 80 percent of all jobs nationwide, and which were responsible for virtually all the new jobs created in the 1980s, employment growth has faltered. The second is money creation. Although weak M2 money supply growth probably overstates the threat to the recovery—especially as consumers take flight from low-yielding, small certificates of deposit, a component of M2—if there are any ill effects there is little the Fed can do about them. If lenders remain cautious, deposit growth suffers no matter how quickly interest rates are pushed lower. The regulatory environment, not monetary policy, needs to be altered and, until this quandry is resolved, the crunch will persist, as will the diminished influence of lower interest rates.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/18/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	267.050	+ 2.824	+22.164
Loans to Depository Inst.	.862	+ .070	- .108
Float	.628	- .121	+ .234
Total Reserve Bank Credit	299.898	+ 3.040	+12.811
Treasury Deposits with Federal Reserve Banks	8.321	+ 2.512	+ .751
Currency in Circulation	294.980	- .877	+22.040
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	251.649	+ .167	+17.166
Member Bank Reserves:	**9/18/91**		
Total Reserves Held	52.174	+ 1.847	- 8.482
Excess (Deficiency)	.885	- .384	+ .139
Net Free Reserves	.153	- .327	+ .107

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (9/9/91)	866.7	+ 6.6	+ 6.0
M2 (9/9/91)	3,390.4	- 0.6	+ 2.3
M3 (9/9/91)	4,137.5	- 2.8	+ 1.1
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/20/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.31%	5.42%	5.51%
* Federal Agencies	5.30	5.45	5.66
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.82	6.82	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.47	5.65	5.85

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.31%	Oct.	5.52%
15- 29 days	5.35	Nov.	5.42
30- 59 days	5.35	Dec.	5.36
60- 89 days	5.30	Jan.	5.52
90-179 days	5.37	Feb.	5.47
180-239 days	5.45	Mar.	5.45
240-270 days	5.45		

‡ Industrial Paper–Prime			
30- 89 days	5.40%	†Federal Funds	
90-120 days	5.40	Effective Rate	5.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,616	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,123	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.1	- 2.8	+ 0.4
Change in Consumer Prices*	Aug '91 n	2.4%	2.4%	9.6%
Change in MH Cost of Living Index*	Aug '91 n	4.8%	1.2%	6.0%
Change in Producer Prices*	Aug '91 n	2.4%	- 2.4%	+ 13.2%
Civilian Employment (Thousands of Persons) †	Aug '91	116,416	116,712	117,690
Unemployment as % of Civilian Labor Force †	Aug '91	6.8%	6.8%	5.6%
Personal Income*	Jul '91	$ 4,808	$ 4,813	$ 4,663
Leading Indicators Composite Index (1967=100) †	Jul '91	145.4	143.7	146.2
Industrial Production Index (1977=100) †	Aug '91 n	108.2	108.0r	110.5
Net Change in Consumer Installment Credit †	Jul '91 n	- $ 0.84	- $ 1.70r	+ $ 2.39
U.S. Merchandise Trade Balance †	Jul '91 n	- $ 5.90	- $ 3.79r	- $ 9.24
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Aug '91 n	1,065	1,059r	1.131
New Construction Expenditures*	Jul '91	$ 404.9	$ 398.7	$ 453.1
Total Business Inventories †	Jul '91 n	$ 804.5	$ 807.1r	$ 818.7r
Total Business Sales †	Jul '91 n	$ 541.0	$ 537.0r	$ 541.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Only New York has 52 Tie Manufacturers,

279 Health Clubs,

987 Ad Agencies,

and 1,668 Dry Cleaners.

And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (PC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand-in-hand with every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC © 1991 Manufacturers Hanover

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 839 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SPI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-7

MANUFACTURERS
HANOVER

Financial
Digest

Volume XXVIII, Number 20

Monday, October 7, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

EMS Membership Benefits UK Economy

Despite former Prime Minister Margaret Thatcher's fears that entering the pound into the exchange rate mechanism of the European Monetary System (EMS) would spell economic disaster, one year after entry it appears that sterling's membership in the European Community's currency grid has proved to be more beneficial to the UK economy than even its strongest supporters had hoped. For although the economy is still in recession, largely the result of the Thatcher government's stop-go monetary policies of the late 1980s, inflation and interest rates are down from a year ago, the pound is stable on the foreign exchange markets and signs that the recession may be ending are beginning to appear.

One of the major reasons that Mrs. Thatcher resisted joining the EMS for 11 years was her unwillingness to relinquish control of UK monetary policy to the Bundesbank. Yet, by anchoring the pound to the mark through EMS membership, the Bank of England has been able to engineer eight cuts in UK interest rates during the past year, bringing British base rates from a peak of 15 percent just before the pound entered the EMS last October to 10½ percent, their lowest level in over three years.

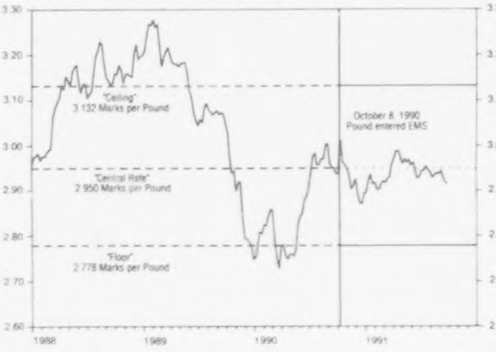
Manufacturers
Hanover
Economics
Department
17/270

It is extremely doubtful that such a dramatic cut in interest rates would have been possible had sterling not been in the EMS. This is because, without the government's commitment to defend the pound's trading ranges against the other EMS currencies, such a substantial drop in interest rates would have almost certainly provoked a sterling selloff in the foreign exchange markets, especially during a period of Bundesbank monetary tightening.

Interest Rates and Inflation Are Down

Indeed, one sign of the foreign exchange markets' new-found confidence in the pound is the significant narrowing of UK-German interest rate differentials during the past year. The spread between UK base rates and the market-influenced German Lombard rate is at a historically low 1¼ percentage points, while the gap between Euro-sterling and Euro-mark interest rates is now a mere one percentage point versus 6½ percentage points a year ago.

DEUTSCHEMARKS PER POUND



Source: MH

What is more, this has occurred with very little slippage of sterling against the mark: The pound entered the EMS at 2.95 marks per pound and is currently trading at around 2.92 marks per pound, well above its permitted "floor" of 2.778 marks per pound. Indeed, once nicknamed the "whipping-boy of Europe" because of its extreme volatility, the pound has remained pretty much within the standard 2¼ percent EMS trading band against the mark, despite the six percent limits that were granted to the United Kingdom as a transitional step (see chart).

The substantial fall in UK interest rates over the past year, however, would not have been possible without a significant decline in the country's inflation rate. Here, too, EMS membership has played an important role. For one thing, companies are being forced to resist hefty salary demands because they can no longer count on currency devaluation to boost exports as a way of offsetting higher wage costs. For another, sterling's relatively high EMS entry level of 2.95 marks per pound has held down the cost of imports. To be sure, falling mortgage rates, which are included in the retail price index (equivalent to the consumer price index in the United States), have played a major role in reducing the inflation rate, but moderating wage settlements and a strong currency have also helped to alleviate price pressures. As a result, the inflation rate slowed from 10.9 percent last October (year-over-year) to 4.7 percent in August, its slowest pace in three years. In fact,

Copyright 1991 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

there is a good chance that the UK inflation rate, already below the European Community average of 4.9 percent, will be below Germany's within the next few months for the first time since 1969.

What's more, despite complaints from exporters about sterling's high EMS entry level, foreign sales reached a monthly record of 9.1 billion UK pounds in August. Relatively good export performance, combined with compressed import demand due to the recession, is expected to cause the current account deficit to narrow to around seven billion pounds this year from almost 12 billion pounds in 1990.

Finally, signs that the recession may be ending are beginning to appear. In particular, according to the latest monthly trends survey by the Confederation of British Industry (CBI), for the first time in 16 months a majority of UK manufacturers, encouraged by a pickup in both domestic and foreign orders, now expect output volumes to improve in the coming months.

But The Tories Lag In The Polls

So with interest rates down, inflation slowing, the pound stable on the foreign exchange markets, the external accounts improving and signs of economic recovery beginning to surface, why is the ruling Tory Party trailing the opposition

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (9/18/91)	180,714	- 2,330	- 28,479
New York City (9/25/91)	29,762	- 100	- 5,851
Commercial Paper (9/25/91)	532,877	+ 798	- 30,330

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (9/18/91)	300,384	+ 1,928	- 18,044
New York City (9/25/91)	53,247	- 1,666	- 3,629

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (9/18/91)	1,017,929	+ 3,530	- 3,678
New York City (9/25/91)	170,658	- 416	- 7,762

Financial Markets

	Friday 10/4/91	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, Closing Yields:			
90-Day Bills†	5.14%	- .12	- 2.12
180-Day Bills†	5.27	- .07	- 2.15
Longest Bills†	5.32	- .09	- 2.17
Recent Issues:			
6⅛s 9/30/93	5.90	- .09	
7s 9/30/96	6.79	- .15	
7⅞s 8/1/01	7.39	- .09	
8⅛s 8/15/21	7.79	- .03	
Municipals:			
Bond Buyer—20 Bond Index* (10/3/91)	6.64%	- .09	- .84
Blue List Total ($ Million)	$1,293	- $216	+ $222
30-Day Visible Supply ($ Million)	$2,387	+ $214	+ $536
Total	$3,680	- $ 2	+ $758
Corporates:			
Moody's Aa Composite (10/3/91)	8.79%	- .03	- .96
30-Day Visible Supply ($ Million)	$ 275	- $ 15	- $192
Stocks:			
Dow-Jones Averages:			
Industrials	2,961.76	- 44.28	+451.11
Transportation	1,188.34	+ .75	+322.02
Utilities	212.63	+ 2.19	+ 7.21
65 Stocks	1,062.15	- 7.51	+180.67
N.Y.S.E. Composite Index	210.22	- 1.99	+ 39.52
N.Y.S.E. Avg. Daily Vol. for Week (000's)	163,102	+ 5,030	- 2,189

*34% Taxable equivalent 10.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 10/4/91**	**Week Ago**
Overnight	5.25%	5.38%
1 month	5.19	5.38
3 month	5.38	5.56
6 month	5.31	5.56
1 year	5.50	5.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/4/91)	**Currency Per U.S. $**	**Week Ago**
Belgium	34.25	34.74
Canada	1.1326	1.1352
France	5.6725	5.7455
Germany	1.6642	1.6860
Italy	1245.00	1261.00
Japan	129.70	133.83
Mexico	3061.00	3057.80
Netherlands	1.8747	1.9008
South Korea	730.38	728.01
Switzerland	1.4550	1.4683
Taiwan	26.15	26.26
U.K.*	1.7510	1.7303

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/4/91) (Adjusted for Inflation)	**Change Since Week Ago**	**Change Since 2/27/85**
	-0.7%	-11.7%

Labor Party in public opinion polls less than nine months before the next general election must be held? The main reason is that despite the recent improvement in economic fundamentals and Prime Minister John Major's personal popularity, the average UK voter apparently does not think that the Tory Party has done a good job in managing the UK economy since its last mandate in 1987. In fact, according to a recent survey, most voters feel that the Labor Party would do a better job than the Tories in such areas as health, education, the environment, living standards and especially employment, some of the exact same issues that Americans are finding fault with George Bush. Just as in the United States, the fear of unemployment is the main factor dampening consumer confidence, hurting retail sales and thus delaying economic recovery. In the United Kingdom, too, white collar workers have been hard-hit by this recession, causing the Tory Party to concede that unemployment will play a larger role in this election than before. So with 2.4 million UK workers out of a job—and the number is rising—and without such foreign policy distractions as the Middle East and nuclear disarmament to boost their popularity, the Tories may very well find themselves out of office next year for the first time since 1979. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/2/91	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	264.169	+ .235	+21.865
Loans to Depository Inst.	.344	- .078	- .167
Float	.396	- .183	- .908
Total Reserve Bank Credit	296.150	+ .102	+10.838
Treasury Deposits with Federal Reserve Banks	8.398	- 1.510	+ .697
Currency in Circulation	293.582	- .113	+21.234
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.699	- 2.295	+13.026
Member Bank Reserves:	10/2/91		
Total Reserves Held	50.192	- 1.970	- 9.092
Excess (Deficiency)	1.099	+ .380	- .023
Net Free Reserves	.757	+ .370	+ .142
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (9/23/91)	870.7	+ 5.6	+ 5.9
M2 (9/23/91)	3,392.7	- 0.8	+ 2.2
M3 (9/23/91)	4,136.7	- 2.8	+ 1.0
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/4/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.12%	5.25%	5.33%
* Federal Agencies	5.27	5.32	5.46
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.30	5.42	5.45

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.20%	Nov.	5.20%
15- 29 days	5.20	Dec.	5.20
30- 59 days	5.18	Jan.	5.28
60- 89 days	5.00	Feb.	5.25
90-179 days	5.18	Mar.	5.25
180-239 days	5.25	Apr.	5.20
240-270 days	5.25		

‡ Industrial Paper–Prime			
30- 89 days	5.18%	†Federal Funds	
90-120 days	5.25	Effective Rate	5.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,612r	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,119r	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.5r	- 2.8	+ 0.4
Change in Consumer Prices*	Aug '91	2.4%	2.4%	9.6%
Change in MH Cost of Living Index*	Aug '91	4.8%	1.2%	6.0%
Change in Producer Prices*	Aug '91	2.4%	- 2.4%	+ 13.2%
Civilian Employment (Thousands of Persons) †	Sep '91 n	117,165	116,416	117,883
Unemployment as % of Civilian Labor Force †	Sep '91 n	6.7%	6.8%	5.7%
Personal Income*	Aug '91 n	$ 4,824	$ 4,804r	$ 4,675
Leading Indicators Composite Index (1967=100) †	Aug '91 n	145.4	145.4	144.4
Industrial Production Index (1977=100) †	Aug '91	108.2	108.0	110.5
Net Change in Consumer Installment Credit †	Jul '91	- $ 0.84	- $ 1.70	+ $ 2.39
U.S. Merchandise Trade Balance †	Jul '91	- $ 5.90	- $ 3.79	- $ 9.24
Plant and Equipment Expenditures*	4th Q'91	$ 540.9 (a)	$ 539.5 (a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Aug '91	1,065	1,059	1,131
New Construction Expenditures*	Aug '91 n	$ 406.2	$ 404.9	$ 449.7
Total Business Inventories †	Jul '91	$ 804.5	$ 807.1	$ 818.7
Total Business Sales †	Jul '91	$ 541.0	$ 537.0	$ 541.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Only New York has 52 Tie Manufacturers,

279 Health Clubs,

987 Ad Agencies,

and 1,668 Dry Cleaners.

And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (PC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand-in-hand with every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC. © 1991 Manufacturers Hanover

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

C0463000024182 C 939 CONGRC001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest

B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 21

Monday, October 21, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Waiting For The Holidays

With the Holiday selling season fast approaching, virtually all analysts are pondering likely consumer behavior in coming weeks. The stakes are high, not only for the retailing community, which typically derives about one third of its annual sales and one half of yearly profits during the Christmas season, but for the entire economy as well. For if the recent reluctance of the consumer to spend persists, the odds lengthen that today's modest manufacturing-led rebound will endure. Unfortunately, with both positive and negative factors buffeting consumer confidence and finances, the jury is still out as to just what will happen over the next month or two, a decidedly uncertain environment which breeds caution and skepticism at precisely the same time that a good-sized dose of the opposite is necessary.

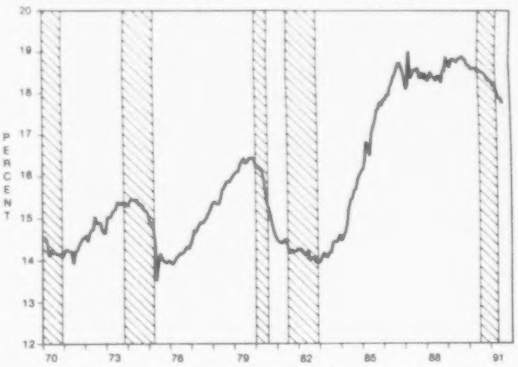
If households decide to sit on their hands during the current Holiday season, it would be the second one in a row. Last year, the unfolding of the Persian Gulf crisis soured consumer confidence and pinched spending, contributing to the onset of a three-quarter slide in inflation-adjusted GNP. At this juncture, the economy again finds itself at a crossroads. While it appears a good bet that GNP growth returned to the plus column in the third quarter, this was almost entirely due to an upturn in industrial output and a significant slowing of inventory liquidation. However, with the inventory rebalancing process largely completed, the principal concern now is that the forward momentum of the industrial sector will soon dissipate unless consumers and businesses start to buy some of the goods turned out over the past few months.

Manufacturers Hanover Economics Department 17/270

Pluses And Minuses

Notwithstanding what many of the more pessimistic pundits believe, there are several bright spots sprinkled among the darker ones on the household financial landscape. Take, for example, labor market conditions. Although employment levels took a beating during the recession, the tide has turned in recent months. Paced by a hefty upturn in selected service industry employment, especially health care, and a cessation of factory layoffs, nonfarm payrolls increased by 224,000 persons during the past five months, a huge turnaround compared with the one million person drop in payroll jobs—40 percent of which were manufacturing jobs—experienced during the immediately preceding five-month period. So, too, initial claims for state unemployment insurance benefits have ebbed compared with their late winter peak, yet still remain at uncomfortably high levels.

INSTALLMENT DEBT AS A PERCENT OF DISPOSABLE INCOME



Sources: Federal Reserve; Commerce Dept.

Nonetheless, painting too rosy a picture of job market conditions could promote false optimism. Murky employment prospects and relentless cost cutting throughout large chunks of corporate America continue to chip away at consumer confidence—which is already retreating from the high point reached following the end of hostilities in the Persian Gulf. Announced major layoffs soared to a record high in the third quarter, and the fourth quarter may not be much better. Job cutbacks continue to spread throughout such large service industries as commercial banking and insurance, and layoff announcements have become part and parcel of disappointing corporate earnings performance. What is more, many of those still working are being required to do so on a part-time basis. The number of involuntary, part-time workers has jumped by more than 20 percent during the past year, while the number of people voluntarily working part-time hours has dropped by one percent.

Not surprisingly, record major company layoffs and surging part-time employment are incompatible with buoyant consumer confidence and robust retail sales—translating directly into a disinclination to spend. They are, however, compatible with lackluster income growth, which curbs the ability to spend. For although household disposable income increased by a

270 Park Avenue, New York, NY 10017

seemingly moderate 3.6 percent over the past year, this has not kept pace with inflation. Real disposable income declined 0.1 percent during the period. Nor is the prognosis all that good for any quickening of income growth. With higher-paid, white-collar workers at the cutting edge of the downsizing of many industries, the growth of wage and salary income remains squeezed, while the downdraft in interest rates does the same to interest income.

Balance Sheet Improvements

In response to clouded job and income prospects, consumers have begun to take steps to shore up their finances. For one thing, households seem to be trying to save more, even in the face of anemic income growth. The savings rate is now hovering at around four percent of disposable income which, although still low by almost any yardstick, is well above the nadir reached in 1987. For another, consumers are apparently becoming uncomfortable with the mountain of installment debt acquired in recent years.

After nearly tripling in size to $730 billion during the 1980s, the growth of consumer installment debt outstanding came to an abrupt halt in mid-1990; over the past year, it has declined by about one percent. As shown in the chart,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	177,539	- 1,188	- 29,702
New York City (10/9/91)	29,963	+ 401	- 5,664
Commercial Paper (10/9/91)	531,037	+ 600	- 31,975

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	299,986	+ 2,711	- 18,923
New York City (10/9/91)	53,822	+ 16	- 2,873

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/91)	1,015,789	- 197	- 3,305
New York City (10/9/91)	167,080	- 529	- 11,790

Financial Markets

	Friday 10/18/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.16%	+ .07	- 2.31
180-Day Bills†	5.26	+ .07	- 2.29
Longest Bills†	5.37	+ .10	- 2.16
Recent Issues:			
6⅛s 9/30/93	5.95	+ .08	
7s 9/30/96	6.86	+ .05	
7⅞s 8/1/01	7.51	+ .04	
8⅛s 8/15/21	7.96	+ .09	
Municipals:			
Bond Buyer—20 Bond Index* (10/17/91)	6.67%	+ .01	- .81
Blue List Total ($ Million)	$1,100	- $ 135	+$ 19
30-Day Visible Supply ($ Million)	$3,812	+ $1,392	+$1,946
Total	$4,912	+ $1,257	+$1,965
Corporates:			
Moody's Aa Composite (10/17/91)	8.85%	+ .01	- .96
30-Day Visible Supply ($ Million)	$ 150	- $ 500	- $ 317
Stocks:			
Dow-Jones Averages:			
Industrials	3,077.15	+ 93.47	+556.36
Transportation	1,287.00	+ 69.88	+418.84
Utilities	214.76	+ 2.94	+ 4.88
65 Stocks	1,111.84	+ 38.65	+224.42
N.Y.S.E. Composite Index	216.15	+ 6.08	+ 45.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	195,590	+ 32,450	+14,864

*34% Taxable equivalent 10.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/18/91	Week Ago
Overnight	5.19%	5.13%
1 month	5.25	5.19
3 month	5.38	5.31
6 month	5.38	5.31
1 year	5.56	5.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/18/91)	Currency Per U.S. $	Week Ago
Belgium	34.83	35.02
Canada	1.1288	1.1297
France	5.7665	5.7940
Germany	1.6920	1.7000
Italy	1264.70	1276.90
Japan	130.05	130.00
Mexico	3076.60	3063.80
Netherlands	1.9065	1.9155
South Korea	734.51	736.39
Switzerland	1.4790	1.4890
Taiwan	26.12	26.10
U.K.*	1.7208	1.7120

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/18/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	0.0%	-11.0%

the paring of installment debt and modest income growth have brought to a halt the relentless rise in the ratio of consumer installment debt-to-disposable income. While the "deleveraging" of household America has just begun, and will not by itself spark a consumer-driven boom this Christmas, it does give consumers a bit more breathing room if, and when, they decide to spend more.

Modest job market improvements, limited income gains and a bit of debt relief should set the stage for a modestly healthy Holiday season for retailers. Although inconclusive by itself, the upturn in retail sales in September, while largely auto-related, was a step in the right direction. However, since the economy is still constrained by the credit/bank capital "crunch", belt-tightening by state and local governments and anemic corporate profitability, there is certainly no shortage of negatives which could derail any spurt in consumer spending. For this reason, the monetary policymakers will keep a sharp eye on each and every economic statistic in the weeks ahead, ever ready to push short-term interest rates lower. While this might depress household interest income somewhat, it might also provide a fillip to spending by encouraging more consumer borrowing. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/16/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	263.146	+ .468	+20.729
Loans to Depository Inst.	.321	+ .062	- .070
Float	.616	+ .109	+ .037
Total Reserve Bank Credit	296.052	+ .895	+11.336
Treasury Deposits with Federal Reserve Banks	4.486	- .775	- 1.020
Currency in Circulation	296.584	+ 1.600	+21.112
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.684	- 2.461	+10.056
Member Bank Reserves:	10/16/91		
Total Reserves Held	52.067	+ 1.897	- 8.268
Excess (Deficiency)	1.163	+ .119	+ .179
Net Free Reserves	.880	+ .178	+ .284

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	Year Ago
M1 (10/7/91)	875.8	+ 6.2	+ 6.1
M2 (10/7/91)	3,393.1	- 0.6	+ 2.1
M3 (10/7/91)	4,137.7	- 2.1	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/18/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.17%	5.25%	5.38%
* Federal Agencies	5.10	5.15	5.45
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.21	6.52	6.52
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.45	5.44	5.55

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.20%	Nov.	5.20%
15- 29 days	5.18	Dec.	5.17
30- 59 days	5.14	Jan.	5.23
60- 89 days	5.00	Feb.	5.22
90-179 days	5.24	Mar.	5.19
180-239 days	5.25	Apr.	5.17
240-270 days	5.25		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	5.21%		
90-120 days	5.30	Effective Rate	5.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,612	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,119	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.5	- 2.8	+ 0.4
Change in Consumer Prices*	Sep '91 n	4.8%	2.4%	9.6%
Change in MH Cost of Living Index*	Sep '91 n	3.6%	4.8%	4.8%
Change in Producer Prices*	Sep '91 n	1.2%	2.4%	15.6%
Civilian Employment (Thousands of Persons) †	Sep '91	117,165	116,416	117,883
Unemployment as % of Civilian Labor Force †	Sep '91	6.7%	6.8%	5.7%
Personal Income*	Aug '91	$ 4,824	$ 4,804	$ 4,675
Leading Indicators Composite Index (1967=100) †	Aug '91	145.4	145.4	144.4
Industrial Production Index (1977=100) †	Sep '91 n	108.1	108.0r	110.6
Net Change in Consumer Installment Credit †	Aug '91 n	- $ 1.29	- $ 0.63r	+$ 1.09
U.S. Merchandise Trade Balance †	[illegible] '91 n	- $ 6.76	- $ 5.95r	- $ 9.35
Plant and Equipment Expenditures*	[illegible] '91	$ 540.9 (a)	$ 539.5 (a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Sep '91 n	1,033	1,056r	1,106
New Construction Expenditures*	Aug '91	$ 406.2	$ 404.9	$ 449.7
Total Business Inventories †	Aug '91 n	$ 806.2	$ 806.8r	$ 822.7r
Total Business Sales †	Aug '91 n	$ 540.9	$ 541.0	$ 554.2r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER
Only Long Island has 82 Manufacturers of Electronic Components,
143 Gardening Centers,
438 Engineering Firms,
and 1,770 Dentists' Offices.
And over 60,000 successful New York businesses look to Manufacturers Hanover to help them grow.
Manufacturers Hanover
Our Business is the Business of New York

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 939 CONGRC001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest